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2 IN THE UNITED STATES DISTRICT COURT  
3 FOR THE EASTERN DISTRICT OF TEXAS  
4 TYLER DIVISION

5 SOVERAIN SOFTWARE )  
6 -vs- ) DOCKET NO. 6:07cv511  
7 )  
8 ) Tyler, Texas  
9 ) 1:00 p.m.  
10 NEWEGG, INC. ) April 29, 2010

11 TRANSCRIPT OF TRIAL  
12 AFTERNOON SESSION  
13 BEFORE THE HONORABLE LEONARD DAVIS,  
14 UNITED STATES DISTRICT JUDGE, AND A JURY

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28 produced by a Computer.

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1 P R O C E E D I N G S

2 COURT SECURITY OFFICER: All rise.

3 (Jury in.)

4 THE COURT: Please be seated.

5 All right, Mr. Sayles. What will be  
6 next?

7 MR. SAYLES: May it please the Court.

8 THE COURT: Uh-huh.

9 MR. SAYLES: On August the 25th, 2009,  
10 Shikhar Ghosh gave a deposition at which time lawyers  
11 for both parties appeared. He was duly sworn on oath  
12 and testified as we're about to show.

13 THE COURT: Okay. Thank you.

14 (Video playing.)

15 QUESTION: Mr. Ghosh, could you please  
16 provide a general overview of your educational  
17 background?

18 ANSWER: I got -- I got my BCom, which is  
19 a bachelor's in India, in '78. I came here and did my  
20 master's at Harvard Business School, MBA. That's it.

21 QUESTION: And could you take us through  
22 your employment history.

23 ANSWER: All the way back?

24 QUESTION: How about following your --  
25 sorry. What was the degree in India called?

1 ANSWER: BCom.

2 QUESTION: BCom. Following that.

3                   ANSWER: All right. So after my MBA, I

4 joined the Boston Consulting Group. I was there until

5 1988 or so. I was a partner in the Boston office.

6 I left to form -- or to join a company as

7 the CEO called Apex Software. We did cellular software.

8 Sold that company to EDS in 1991, I

9 believe, and ran -- that company then became EDS's

10 Personal Communication Division. I ran that for them

11 until '93.

12 And in '93, with David Gifford, formed

13 Open Market. I was the CEO until '95, late '95; then

14 became the chairman. I was the chairman until '99 or

15 so. I forget the exact date. But it was when Divine

16 bought the company.

17                   And since then -- after that, founded

18 another company called iBelong. That company then

19 merged with another company and became Verilytics. I'm

20 CEO of both companies.

21                    Since then have founded or helped found

22 an additional three or four companies. I'm the

23 non-executive chairman of three, four companies right

24 now -- three companies and on the board of one company.

25 So I was doing basically board roles for

1 two or three years. And I'm currently employed by  
2 Harvard Business School, and I'm on the faculty.

3 QUESTION: Do you have any opinion as to  
4 the value of the shopping cart technology in the scheme  
5 of the overall Transact product?

6 ANSWER: No. It's one of the pieces  
7 that's necessary.

8 QUESTION: Necessary how?

9 ANSWER: It's hard to imagine someone  
10 doing shopping without some functionality like that;  
11 otherwise, every transaction would be unique and  
12 different.

13 QUESTION: What do you mean by unique and  
14 different?

15 ANSWER: You'd have to -- if I was buying  
16 six things from the store, I'd have to buy each one as a  
17 complete transaction. So no different than if you  
18 walked into a store and had to buy each element, go in  
19 and buy the first thing in the grocery store and come to  
20 the checkout counter, put that in the bag, and go back  
21 again.

22 QUESTION: Do you have any opinion as to  
23 the value of the methods of storing state in the scheme  
24 of the Transact product?

25 ANSWER: It's critical. So without

1 state, it's really hard to imagine how you could conduct  
2 commerce, or for that matter, anything of any value.

3 QUESTION: What, in your opinion, drove  
4 the customer demand for Transact?

5 ANSWER: It was a unique product. It was  
6 complete. It did all of the functions, almost -- you  
7 know, at different time periods, different -- there were  
8 different elements of value.

9 In the early stages, it was the only one.  
10 In the later stages, it had a particular philosophy and  
11 was very useful if you wanted to operate multiple sites  
12 or multiple products or you wanted scale or you wanted  
13 something very secure. It was the high end of the  
14 market, the higher end of the market.

15 QUESTION: What made it better than  
16 competing products in terms of large scale or multiple  
17 stores?

18 ANSWER: That's what I did. It could  
19 handle large scales. It could handle multiple stores.  
20 It could handle multiple methods of connecting to it.  
21 If you were a large company and you didn't want to  
22 change your whole operation, it fit into your  
23 environment because it had so many different options in  
24 it.

25 It -- just as an example, it could handle

1 soft goods and hard goods. If you were selling an  
2 article and you were selling a CD, one was delivered  
3 physically, and one was delivered online.

4 And from a software perspective, these  
5 are very different things, and it could do both of  
6 those. It could do subscriptions. It could do single  
7 sales. It could do warranties. It could do a whole  
8 range of these things.

9 QUESTION: Are there any other features  
10 of Transact that you believe drove the customer demand?

11 ANSWER: It was an end-to-end product, so  
12 it allowed somebody to do everything from the beginning  
13 to the end, offered -- offered a shopping experience,  
14 and that was somewhat unique.

15 QUESTION: What caused Open Market to be  
16 sold to Divine?

17 ANSWER: The business was in pretty bad  
18 shape. The company was losing money and did not have a  
19 huge cash balance, and the public markets were not  
20 available to raise additional capital.

21 QUESTION: We had discussed earlier that  
22 certain features of the Transact product were patented  
23 by Open Market. Had Open Market ever threatened to sue,  
24 under its patents, any of its Transact licensees?

25 ANSWER: Not that I recall.

1                   QUESTION: Had it ever actually sued any  
2 of its licensees under its --

3                   ANSWER: Not that I recall.

4                   QUESTION: -- patents?

5                   Do you know why Open Market did not?

6                   ANSWER: Why would we sue our customers?

7                   QUESTION: That's not what I'm asking.

8                   Would Open Market have and why not?

9                   ANSWER: No, unless there was an  
10 egregious violation of a patent. So I can imagine that  
11 if somebody bought a license from us to do one thing,  
12 and the company -- IBM could have bought a license from  
13 us, you know, for one of their businesses and then chose  
14 to create a product that violated our patents, I  
15 wouldn't see a problem with suing them on that.

16                  QUESTION: Mr. Ghosh, if Newegg had  
17 approached you in 2001 seeking to license Transact from  
18 Open Market, what would your reaction have been?

19                  ANSWER: We'd have licensed it.

20                  QUESTION: You would have licensed it to  
21 them?

22                  ANSWER: Yes.

23                  QUESTION: In your experience, would you  
24 expect that license to have been more like a merchant  
25 license or more like a CSP license?



1                   ANSWER: More like a merchant license,  
2 probably.

3 QUESTION: Why is that?

4                   ANSWER:  If they were just selling their  
5  own stuff.

6 QUESTION: As opposed to them wanting to  
7 host the stores of third parties?

8 ANSWER: Right. Right.

9 QUESTION: What terms would you expect to  
10 be able to license Newegg for Transact?

11                   ANSWER: I have no idea, but standard  
12 terms. I can't see why it would be different.

13 QUESTION: And by standard, you mean  
14 terms similar to those of other merchants or single-user  
15 agreements?

16 ANSWER: Yes.

17                   QUESTION: If Newegg were licensed under  
18 Transact, would you expect the license fee to be a  
19 lump-sum payment?

20 ANSWER: Probably.

21 QUESTION: Would you expect their  
22 maintenance and service to be roughly 20 to 30 percent  
23 of that lump-sum payment?

24 ANSWER: Yes.

25 QUESTION: Would you expect Newegg to pay

1 any license fees on an ongoing basis?

2 ANSWER: No.

3 QUESTION: Would you expect Newegg to pay  
4 any fees based on revenues?

5 ANSWER: Probably not.

6 QUESTION: Would you expect Newegg to pay  
7 any fees based on the number of transactions that are  
8 performed via its website?

9 ANSWER: Probably not.

10 MR. BREAN: I have no further questions.

11 (End of video clip.)

12 MR. SAYLES: That concludes the  
13 deposition of Shikhar Ghosh.

14 At this time, we would call Mr. Chris  
15 Bakewell.

16 THE COURT: Okay. Mr. Bakewell.

17 COURTROOM DEPUTY: I don't believe he's  
18 been sworn.

19 THE COURT: Have you been sworn,  
20 Mr. Bakewell?

21 THE WITNESS: I haven't been sworn.

22 THE COURT: All right. If you would,  
23 please raise your right hand to be sworn, sir.

24 (Witness sworn.)

25 MR. SAYLES: May it please the Court.

1 THE COURT: You may proceed.

2 CHRIS BAKEWELL, DEFENDANT'S WITNESS, SWORN

3 DIRECT EXAMINATION

4 BY MR. SAYLES:

5 Q Would you introduce yourself to the jury,  
6 please.

7 A Yes. Good afternoon. My name is Chris  
8 Bakewell.

9 Q And why are you here?

10 A I am here as an expert witness on damages  
11 issues.

12 Q I'd like you to tell the Ladies and Gentlemen  
13 of the Jury your conclusion regarding damages, and then  
14 we're going to go through the basis for that.

15 A Okay. My conclusion regarding damages is that  
16 the appropriate measure in this case is a lump-sum  
17 damages award of \$500,000.

18 Q Now, Mr. Bakewell, let me start at the  
19 beginning.

20 A Okay.

21 Q I'd like to go through your qualifications and  
22 a little bit of your background.

23 A Sure.

24 Q Where do you live?

25 A I live in Sugarland, Texas.

1 Q And what do you do for a living?

2 A I am a management consultant.

3 Q And what is your area of expertise?

4 A I focus my practice on the valuation of  
5 intellectual property.

6 Q How did you become involved in that field?

7 A Well, I started my career programming  
8 computers after I graduated from college, and I then  
9 went to graduate school where I got an MBA in finance,  
10 and I used that combined background and began working  
11 for a consulting firm.

12 Q And have you had any articles or books  
13 published in the area of intellectual property  
14 valuation?

15 A Yes, sir. I've had articles published, a  
16 chapter in a book that's due to be published, articles  
17 in peer-reviewed journals.

18 Q Tell the Ladies and Gentlemen what a  
19 peer-reviewed journal is.

20 A Peer-reviewed journal is a journal that is --  
21 the article that I submit is reviewed by my peers before  
22 it's published to ensure that the article reflects the  
23 state of the art.

24 Q All right. We're here about licensing. Have  
25 you had anything published in the area of licensing?

1           A     Yes, sir. I've had articles published in the  
2 area of licensing.

3           Q     You told us that you went to college. Where  
4 did you go?

5           A     I went to Bradley University in Peoria,  
6 Illinois, for undergraduate.

7           Q     All right. And I don't want you to be too  
8 modest. Did you graduate with honors?

9           A     I did. I graduated with honors, yes, sir.

10          Q     And what are the degrees that you have  
11 received?

12          A     I have a Bachelor's of Science degree in  
13 finance and business from Bradley University. I also  
14 have an MBA in finance from the University of Maryland  
15 at College Park.

16          Q     And then did you have any honors from there?

17          A     Yes, sir. I was a graduate fellow at the  
18 University of Maryland.

19          Q     And would you tell the Ladies and Gentlemen of  
20 the Jury some of your professional certifications that  
21 you hold.

22          A     Well, I am an accredited senior appraiser,  
23 which is a designation that's awarded by the American  
24 Society of Appraisers. That takes 10,000 hours of  
25 hands-on valuation of experience -- hands-on valuation

1 experience to earn, as well as passing five  
2 examinations.

3 I am also a certified licensing professional.  
4 That's licensing as in the licensing that we're talking  
5 about here today.

6 Q All right. Now, you've been retained by  
7 Newegg's lawyers in this case as an expert witness.

8 A Yes, sir.

9 Q And do you get paid for your time like the  
10 other experts who have come before you?

11 A Yes, sir. My firm does.

12 Q And at what rate are you being compensated for  
13 your time?

14 A \$475 per hour.

15 Q What is it that you've been asked to do?

16 A Well, ultimately, to form opinions regarding  
17 damages appropriate in this case. That's involved  
18 reviewing a bunch of materials, boxes and boxes of  
19 materials, reviewing Mr. Nawrocki's report.  
20 I've been asked to provide commentary and rebuttal  
21 opinions regarding Mr. Nawrocki's work as well.

22 Q Mr. Nawrocki described quite a volume of  
23 materials that he reviewed. Have you reviewed those  
24 same materials?

25 A I've reviewed everything that Mr. Nawrocki has

1 and I believe some additional information as well.

2 Q And did you hear his testimony?

3 A Yes, sir. I was here in the court for his  
4 testimony.

5 Q Before we go into the greater details, have  
6 you been asked to make any assumptions with regard to  
7 your analysis?

8 A I have. I've been asked to make one key  
9 assumption, and that is that the patents-in-suit are  
10 valid, enforceable, and infringed.

11 Q Now, you're a damages expert?

12 A Yes, sir.

13 Q Do you have any opinions regarding the  
14 validity or the infringement of these patents?

15 A No, sir.

16 Q And if the patents are not infringed, what  
17 would be the result regarding damages?

18 A Oh, there would be no damages. There would be  
19 no need for my testimony.

20 Q Or alternatively, if the patents are found to  
21 be invalid, what would the answer be with regard to  
22 damages?

23 A No damages. Zero dollars.

24 Q All right. So we'll go with the assumption  
25 that you're legally required to make?

1           A     I'm required to make that assumption.

2           Q     All right. Now, like Mr. Nawrocki, you've  
3 issued some reports in this case, and you've given a  
4 deposition.

5           A     Yes, sir.

6           Q     Can you give us an idea of the amount of  
7 information that you have reviewed in order to form your  
8 opinions, just so that we'll have an understanding of  
9 that?

10          A     Well, when you asked that question, I think  
11 of, back in my office, I have about 20 banker's boxes  
12 filled with documents. I have additional information  
13 that's stored electronically above and beyond that. But  
14 that's the image that comes to mind.

15          Q     And have you prepared some slides that will  
16 help facilitate your testimony --

17          A     Yes.

18          Q     -- in this case?

19          A     Yes, I have.

20          Q     You heard Mr. Nawrocki testify, and do you  
21 agree with Mr. Nawrocki, at least on some points?

22          A     Oh, I do, yes. I think he and I agree on some  
23 points.

24          Q     And do we have a slide that will show that?

25          A     Yes. So this slide summarizes some of the



1 things that Mr. Nawrocki and I agree upon.

2 Q Would you explain that, please.

3 A Sure.

4 We both agree that the license at issue here,  
5 it would be a non-exclusive license.

6 We both considered the Georgia-Pacific  
7 Factors. Those are the 15 factors that Mr. Nawrocki  
8 explained.

9 We agree upon the hypothetical negotiation  
10 date of January 2001.

11 We agree that damages begin in November of  
12 2007. That's a different date than the hypothetical  
13 negotiation date. We're actually required to make that  
14 assumption by law.

15 And then we also agree that Open Market is  
16 unprofitable or would have been unprofitable at the time  
17 of the hypothetical negotiation.

18 Q And is that what the hard facts and the  
19 evidence shows in this case?

20 A Absolutely, yes, sir.

21 Q And what about the issue of the so-called  
22 convoyed or collateral sales? Do you remember  
23 Mr. Nawrocki addressing that?

24 A I do. It may not have been apparent to  
25 everyone in the courtroom, but there's a Georgia-Pacific

1 Factor that relates to convoy or collateral sales.

2           What that means, it means basically what  
3 Mr. Ghosh testified to on video, and that is that the  
4 appropriate measure of value is an upfront amount and  
5 attachments of value related to maintenance and services  
6 and ongoing amounts are inappropriate.

7           In fact, Mr. Nawrocki didn't discuss that in  
8 detail, but he didn't include such amounts in his  
9 analysis.

10       Q     All right.

11       A     So I'd say we agree upon that point.

12       Q     So the maintenance fees that have been  
13 mentioned would not be a proper consideration for the  
14 damages?

15       A     I think both he and I and Mr. Ghosh, as well,  
16 all agree upon that point.

17       Q     All right. Do you have any disagreements with  
18 Mr. Nawrocki?

19       A     I do. That's why I'm here.

20       Q     And generally speaking, what sort of  
21 disagreements do you have?

22       A     Well, let's see --

23       Q     Have you prepared a slide that will outline  
24 these?

25       A     I -- I think so. I have multiple slides, but

1 I think I can describe it conceptually first.

2 Q All right.

3 A When I think about this case and the  
4 difference between Mr. Nawrocki's damages opinion and  
5 mine, I think about when I go to the grocery store.

6 When I go to the grocery store with my kids  
7 and load up the grocery cart with groceries, the grocery  
8 cart is there free, and I don't have to pay to use the  
9 grocery cart. I don't have to drop money in a bucket  
10 when I leave.

11 If I buy a pack of gum or if I load the thing  
12 up with -- cereal is what my kids like the most, I -- I  
13 don't have to pay and nor does the grocery store. They  
14 paid for the carts one time upfront.

15 Q All right. So let's list your areas of  
16 disagreement, if you would, on the slide that you  
17 prepared and just outline those to the jury first, and  
18 then we'll take them one by one.

19 But I want them to hear where your areas of  
20 Mr. Nawrocki's mistakes, in your opinion, lie.

21 A Yes, sir.

22 Well, the first point, his royalty base  
23 includes unrelated sales. I think that, in some ways,  
24 relates to the example that I just gave about the  
25 grocery cart.

1           The second is that he ignored real-world  
2 licenses and other real-world evidence. We'll talk  
3 about licenses from Divine in more detail throughout my  
4 testimony here today.

5           And then the third category, this 25-percent  
6 rule of thumb that Mr. Nawrocki applied, I think, proves  
7 that he's overreaching, because he's applying that rule  
8 of thumb to all of Newegg's profits, not profits that  
9 are attributable to the invention, which is required  
10 under Georgia-Pacific.

11       Q     All right. Now, let's take these one by one  
12 and go into a little bit more detail.

13       A     Okay.

14       Q     The first one is, you said that Mr. Nawrocki's  
15 royalty base includes unrelated sales. Would you please  
16 describe what you mean by that?

17       A     Okay. I've described that I think  
18 conceptually that his royalty base includes things that  
19 don't relate to the patented technology.

20           And I have prepared a series of slides that  
21 describe this, I think, in a little bit more detail and  
22 graphically. There's going to be, I believe, four bars  
23 that eventually go across the screen. So this builds up  
24 to the calculation that I've performed.

25           The first bar -- should I go and describe it?

1           Q     Yes, please. Describe it.

2           A     The first bar, you can see on the left-hand  
3 side that it has the number \$100 next to a bracket.

4                     That hundred dollars, when I think about that,  
5 Newegg sells monitors, for example, right? And I think  
6 they cost about a hundred dollars.

7                     The profit margins that Newegg maintains on --  
8 or earns on those monitors, I've measured, but the cost  
9 of the monitor itself, that has nothing at all to do  
10 with the shopping cart. And so I subtracted that.

11                    Newegg's gross profit margins are 10 percent.  
12 That's -- as Mr. Nawrocki described it, he described the  
13 cost of -- cost of goods sold being just how it sounds,  
14 that it's the cost of the actual items.

15                    So the cost of a hundred-dollar monitor to  
16 Newegg is \$90. That's what that 90 percent is.  
17 Then Newegg has, obviously, to manage their business.  
18 They have to have salaries and employees. Actually,  
19 this calculation doesn't include that. What I've  
20 allocated, in terms of overhead, is credit card  
21 processing fees, and I think shipping costs and only  
22 things that are directly attributable to a transaction  
23 explicitly.

24                    That totals 3.7 percent, leaving a 6.3-percent  
25 profit margin or \$6.30, which is the number at the top.

1           Just one last thing before we move on. That  
2 \$6.30 is -- it's roughly equivalent to the 6 percent  
3 that Mr. Nawrocki discussed. It could be viewed as  
4 being much lower. Looking at it at an operating profit  
5 level, those numbers are more like 1 or 2 percent.

6           So from the starting point, these  
7 calculations, if you consider that \$6.30 is on the table  
8 from the sale of this monitor, it could very well be \$2  
9 or \$1, but I'm taking a generous view in my calculations  
10 here.

11       Q     All right. And before we proceed on, are  
12 these calculations based on underlying facts and data  
13 that you relied on so that you're actually relying on  
14 factual information?

15       A     Oh, yes. They're based on financial  
16 statements, all their financial statements, yes, sir.

17       Q     All right. And what was the next step in your  
18 analysis?

19       A     Well, then over that \$6.30 that's available,  
20 the next step is to try to figure out how much of that  
21 \$6.30 is attributable to the invention, not to Newegg's  
22 business.

23           I think, as we heard Mr. Cheng describe -- and  
24 he showed pictures when he testified -- Newegg is a  
25 fairly complicated, sophisticated business, and there's

1 a lot that's involved in getting a computer monitor to  
2 the marketplace above and beyond a shopping cart on the  
3 screen.

4 And so I went and looked at analysts' reports  
5 and conducted some research to try to determine what  
6 those other factors are. We call that -- in the field  
7 of work that Mr. Nawrocki and I are on -- in, we call  
8 that apportionment.

9 Q All right. And before we go into that in more  
10 detail, you were here when Mr. Nawrocki said that from  
11 an economic standpoint, he did not do analytical  
12 calculations about whether the patented features drove  
13 demand for the Newegg products.

14 Do you remember that subject?

15 A Oh, I do, yes. Yes, sir.

16 Q Would you tell the Ladies and Gentlemen of the  
17 Jury what it means when you refer to patented features  
18 driving demand for sales?

19 A Well, patented features driving demand for  
20 sales, the way that I think about it is that when one's  
21 measuring a royalty, the patent needs to be attached to  
22 the royalty base economically somehow.

23 So if you're going to include all of the sales  
24 and profits from a transaction, it's incumbent upon the  
25 person doing the analysis -- and I think it would be

1 understood between any parties in a negotiation -- that  
2 the only portion that is appropriate is the part that is  
3 causing people to make a purchasing decision.

4 And Mr. Nawrocki said on cross-examination, he  
5 did no analysis of that whatsoever.

6 Q All right. You've read his reports?

7 A Yes, sir.

8 Q You've read his deposition?

9 A Yes.

10 Q And he acknowledges in court that he can cite  
11 no evidence that indicates the patented features drive  
12 the sales of the Newegg products?

13 A That's right. He did in open court.

14 Q And with respect to the analysis of your  
15 calculations, are there any charts that would support  
16 your view that the demand is driven by other factors?

17 A Well, there are. There's a survey that was  
18 conducted by Newegg. It's actually conducted on a  
19 regular basis. And we'll come to it, I think, in maybe  
20 two or three slides.

21 Q All right.

22 A Newegg -- just to go to your question, Newegg,  
23 in its ordinary course of business, prior to this  
24 lawsuit even being filed, never listed shopping cart  
25 technology as something that is important to its



1 customers.

2           It submits a -- it has a survey on its website  
3 that it uses for feedback to get feedback from  
4 customers, and it lists things like did you like our  
5 products? Was our delivery fast enough? How -- how  
6 about our prices?

7           And we'll see that when we get to it.

8       Q     All right.

9       A     A couple more slides.

10      Q     All right. And would you take us to the next  
11 step in your analysis, please.

12      A     So the next step in the analysis is, out of  
13 this \$6.30, to try to figure out how much of that is  
14 related to the -- the computer, let's say the screen  
15 itself, or in this case, the closest I could find from  
16 the research that I performed were references to the  
17 Intuitive website layout and design, one reference to  
18 that.

19           This slide here that's up right now lists, in  
20 fact, 21 different factors that I observed in my  
21 research.

22           Some of them we'd expect to see, and they fit  
23 into the answer I just gave you, brand name being one,  
24 site contact, like the actual monitor itself, customer  
25 relations, the fact that it offers a private-label

1 credit card. One of them relates to the Intuitive  
2 website and design.

3           So on a fraction basis, 1 out of 20 is 5  
4 percent. So it's a little bit less than 5 percent  
5 credit, I think, goes to just the Intuitive website  
6 layout and design. That's something, obviously, much  
7 broader than what the patents are.

8           Q     All right. Are -- these factors that you have  
9 put on this chart that are an assessment of Newegg's  
10 success, are they based on documentation and evidence?

11          A     Oh, yes, sir. I went and conducted research  
12 and looked through documents produced in this lawsuit,  
13 and every time a different attribution of Newegg's  
14 success came up, I listed it out, and it is based upon  
15 actual evidence in the case, yes, sir.

16          Q     All right. Would you take us to the next  
17 step, please?

18          A     Okay. So from that, remember, I said 1 out of  
19 20 is 5 percent. Well, I know that Mr. Nawrocki  
20 contends that the technology here is fundamental and  
21 very important, and I've accepted that.

22                And so I took that 5 percent, and for purposes  
23 of being conservative, I doubled it. And so I gave 10  
24 percent credit.

25                So out of that \$6.30 that was available, I

1 credited 10 percent to the website layout and said,  
2 look, 90 percent relates to other things, and I took  
3 that off the table.

4           So that turns the \$6.30 into 63 cents.

5           Q     And is this based on financial statements of  
6 Newegg?

7           A     It is. That's what the \$6.30 is from.

8           And then the next bar is taken from the other  
9 research that I conducted regarding -- from analysts  
10 reports and independent observations on market -- from  
11 the marketplace.

12          Q     Did you also have at your disposal, for review  
13 and consideration, Newegg documents where they assessed  
14 internally the factors that contributed to the online  
15 shopping experience?

16          A     Yes, sir, I did.

17          Q     Is that important?

18          A     That's important.

19          Q     And can you walk us through that and tell us  
20 what that significance is?

21          A     Sure. Sure.

22                So this -- so I have two bars. And remember,  
23 I said there's going to be four.

24                So the next bar, the third bar, relates to how  
25 much of that website layout generally could possibly

1 relate to the fact that there's a shopping cart on the  
2 website.

3           And so what I found that I thought was the  
4 most meaningful for measuring that was an internal --  
5 actually, it's on their website -- a document that --  
6 from Newegg's website that attributes all of the factors  
7 on its website that it believes are important. And I  
8 think this predates the lawsuit, too.

9           Q     All right.

10          A     This is the document.

11          Q     And is this slide a summary of what those  
12 factors are that Newegg believes contribute to the  
13 online shopping experience?

14          A     It is.

15                So back in 2005, Newegg announced its new  
16 website design, and it issued a press release. And when  
17 it did that, it described the Intuitive website layout  
18 and design and also listed 12 other factors that are  
19 relevant or it highlighted when it released the updated  
20 website.

21                Those things included things that I would  
22 expect to hear based upon what I've seen sitting here in  
23 the courtroom so far: Comparison of products, rollover  
24 and guided navigation, reviews of products, photos,  
25 how-to videos, and things of that nature.

1           Q     All right. And in summary, is what all these  
2 facts and data shows is that the online shopping  
3 experience and the success of Newegg is attributable to  
4 many factors other than these alleged patented --

5           A     Yes, sir, that's exactly what it says.

6           Q     And have you walked us through now the factors  
7 that you considered on the online shopping experience,  
8 or is there yet more?

9           A     I have -- well, I turned that into a  
10 calculation again. 1 over 13 as a ratio is roughly 8  
11 percent, a little bit less than that.

12                     And so I took that ratio, and I applied it to  
13 that -- this is just another listing of the same  
14 factors, the same 13 factors.

15          Q     All right. And wait. Back up for just a  
16 minute there --

17          A     Sure.

18          Q     -- because I want to point out, you cited on  
19 some of these actual source documents at the bottom. Is  
20 this -- go to the next slide.

21                     Is this actually exhibits where you've read  
22 them, reviewed them, and taken them into account?

23          A     Yes, sir. This is --

24          Q     Hard evidence?

25          A     Yes, sir.

1           Q     All right. All right. Go to the next one.

2           A     So 1 out of 13 is roughly 8 percent. I  
3 rounded up. That means you have to take 92 percent of  
4 the remaining amount off the table. That turns that 63  
5 cents from a hundred-dollar transaction into 5 cents.

6                     So that's the amount that's available to  
7 apportion between the parties, the possible benefit  
8 attributable to the invention.

9                     Now, notably, nowhere in this analysis did --  
10 were there any reference to specifically shopping cart  
11 or session IDs. So, yeah, I think it's safe to assume  
12 that this 8 percent measures something broader than the  
13 patents we're discussing here today.

14                    So, again, this number, I think, is  
15 conservative as well.

16                    And that leaves -- as I said, out of that  
17 hundred-dollar transaction for the monitor, there's 5  
18 cents that are left over to be split up that could  
19 possibly be attributed to the patented invention.

20           Q     All right. You indicated that there were four  
21 bars. Is there yet another step?

22           A     And so there is yet another step.

23                    Just one, kind of, side comment. We heard  
24 Mr. Wu testify about the lines of code that relate to  
25 the patented technology. I have that in real small

1 print there at the bottom of the third bar.

2           It says 5.6 lines of code. That's less than 1  
3 percent of the lines of code. That, again, shows that  
4 this 8 percent calculation that I did is conservative  
5 and that I'm leaving more money out there to be  
6 allocated between the parties.

7           And that's the next step, is to split up these  
8 profits between the parties. And I split them up using  
9 the same ratio that Mr. Nawrocki chose, although I think  
10 that there's some issues with the underlying principles.

11       Q     All right.

12       A     But I just accepted that.

13       Q     We'll get to that in a little bit. But you've  
14 accepted it for now.

15       A     For now, for the purposes of this --

16       Q     All right.

17       A     -- calculation.

18       Q     And accepting that, would you take us through  
19 the next step, please.

20       A     So he used something called the 25-percent  
21 rule of thumb to split it up. That leaves -- 75 percent  
22 of the profit is taken off the table, and Newegg earns  
23 it, because it's the one that's commercializing the  
24 invention.

25           And that leaves 25 percent of the 5 percent

1 available for Soverain, or actually, in this case,  
2 because of the hypothetical negotiation date is back in  
3 2001, Open Market.

4           So that's what this --

5           Q     All right.

6           A     -- last bar shows at the very top there. It  
7 says 0.0125. That's a, you know, fraction -- it's just  
8 a little bit more than a penny that remains from this  
9 hundred-dollar transaction that's attributable to the  
10 shopping cart technology.

11          Q     All right. Now, where does all this leave us?

12          A     Well, this leaves us with -- with a little bit  
13 over a penny from that transaction. And that provides  
14 an indication of apportionment.

15          Q     All right. Let's take a look at Slide 8.

16                Would you tell the Ladies and Gentlemen of the  
17 jury what this slide is portraying.

18          A     This is the one that we discussed a few  
19 moments ago, and I said there were -- I used the word  
20 contemporaneous.

21                That's, I think, a fancy word that means real  
22 life, produced outside of litigation, occurring before  
23 litigation actually happened, studies of how Newegg  
24 views and measures its business, and what the important  
25 factors are for it running its business and, in fact,



1 drive its sales.

2           And as you can see here -- I'll read them in  
3 for the record: Customer service, product selection,  
4 customer reviews, pricing -- and pricing actually gets  
5 the most votes from Newegg's customers -- deals and  
6 promotions, safety and security, and fast shipping,  
7 which gets the second or third most votes, which is not  
8 surprising based upon the testimony we've heard so far.

9           Q     All right. Now, we're still talking about  
10 your disagreements with Mr. Nawrocki, and we've talked  
11 about the subject of whether the patented features drove  
12 the demand for Newegg's product.

13          A     Right.

14          Q     What about Transact, the software product of  
15 Open Market? Was it successful?

16          A     Well, now, we've heard testimony about that  
17 from Ms. Wolanyk, about how the product ultimately was  
18 not successful in the marketplace.

19               And I preferred -- prepared some analyses that  
20 show that, based upon financial statements that I've  
21 reviewed in this case.

22          Q     So let me see if I understand. Even though  
23 the patented technology is included in Transact, it was  
24 not -- the Open Market (sic) was not successful?

25          A     That's right. And I think that -- it actually

1 raises a key point. And what that means, if I can kind  
2 of turn that into my observation from a financial point  
3 of view, is that just because a product has these  
4 patents in it does not mean that it's going to make  
5 money in the marketplace.

6 There's other things that need to occur in  
7 order for a business or a software product to be  
8 successful.

9 Q Have you measured or quantified Open Market's  
10 situation?

11 A I have. I think I have some slides that  
12 summarize that.

13 Q Would you explain this slide, please?

14 A Yes. This slide, which is taken from exhibits  
15 in this -- that have been admitted into evidence in this  
16 lawsuit, charts Open Market's cumulative losses since --  
17 from 1995 through the point in time just prior to when  
18 it was acquired by Open Market and right up to the  
19 alleged date of first infringement.

20 It lost money, as you can see by the blue  
21 bars -- not the line but the blue bars -- every year.  
22 And the losses on a cumulative basis totaled \$236.4  
23 million.

24 Q All right. Let me see if I can clarify a  
25 little bit of this.

1                   January 2001 that's shown here is the alleged  
2   date of the first infringement, and that would be when  
3   the jury is to consider the hypothetical negotiation.

4           A     Just the hypothetical negotiation.  Not  
5   damages --

6           Q     All right.

7           A     -- but the hypothetical negotiation.

8           Q     And at that time, Open Market owned the  
9   patents, as well as the Transact product.

10          A     That's right.

11          Q     And you mentioned the sale.  That was to  
12   Divine in August of 2001 after the hypothetical  
13   negotiation.

14          A     Just after.  I mean, we -- in our practice,  
15   we'll incorporate that type of information into our  
16   analysis.

17          Q     Well, let's just look at the date of the  
18   hypothetical negotiation.

19                   What's the bottom line on Open Market's  
20   financial status then?

21          A     Well, as I said, by that point in time, Open  
22   Market had lost \$236.4 million.  It had gone seven years  
23   without earning a profit.

24          Q     Why is that important?

25          A     Well, it shows that the patented invention

1   itself does not mean that a company is going to be  
2   successful. And, in fact, it's another indicator that  
3   the patented invention does not drive demand in the  
4   marketplace.

5           Q     Now, one of the things that you said that  
6   you've considered in this case is deposition testimony.

7           A     Yes, sir.

8           Q     And with regard to Mr. Nawrocki's opinion, do  
9   you disagree with Mr. Nawrocki as it relates to specific  
10  testimony?

11          A     Well, I do. I think that there's testimony  
12  that's out there that runs directly against the grain of  
13  what Mr. Nawrocki -- his damages conclusions are.

14          Q     Give us an example.

15          A     I have a slide with that information. I'll  
16  turn back to it. This summarizes the testimony we heard  
17  from Mr. Ghosh just prior to when I testified.

18                   He was asked a bunch of questions about  
19  Transact. Two of them stood out to me, because he was  
20  asked twice what drove the customer demand for Transact.

21                   In the context of the deposition in this  
22  lawsuit, the CEO of the company said that it was a  
23  unique product.

24                   He didn't say anything about the shopping cart  
25  technology or the session ID or the patents even. He

1 talked about the breadth of the product and the fact  
2 that it was software geared towards customer needs, not  
3 towards the fact that it had patents.

4 Q All right.

5 A Twice he was asked that.

6 Q All right. Now, before we move on to the next  
7 area of disagreement, let's -- let's finish this out.

8 Was the Transact revenue history important to  
9 your consideration?

10 A It was, and I have a slide that summarizes  
11 that.

12 Q Could you describe the Transact revenue  
13 history and why that's important to your analysis?

14 A Okay. This slide that's being displayed right  
15 now for the jury summarizes the revenues from Transact  
16 for that same period that the losses for Open Market  
17 were shown.

18 And as this -- the slide shows, that in 1999,  
19 two years prior to the hypothetical negotiation, that's  
20 when revenues from Transact peaked.

21 However, in the two years leading up to the  
22 hypothetical negotiation date, January 2001, that its  
23 revenues from the product had fallen precipitously.

24 Q So when we get to the discussion of the  
25 hypothetical negotiation, is the circumstances of both

1 parties important to what they would have likely agreed  
2 to?

3 A It's very important, very important. The  
4 hypothetical negotiation requires an analysis of the  
5 facts and circumstances present at that point in time.

6 Q All right. Let me take you now to the next  
7 area of disagreement, if I could --

8 A Okay.

9 Q -- all right?

10 You said at the beginning that Mr. Nawrocki  
11 ignored real-world licenses and other real-world  
12 evidence. Let's deal with that for a moment.

13 A Okay.

14 Q Could you tell us what you mean by this,  
15 please?

16 A Well, the deposition testimony that was played  
17 just before I testified, I think, summarized the notion  
18 of this quite well.

19 Mr. Ghosh -- Mr. Ghosh, in fact, explicitly  
20 went against the grain of the damages model that  
21 Mr. Nawrocki set forth. He said any transaction that  
22 would occur between the parties would not be a running  
23 royalty type of transaction. That's a real-world  
24 consideration.

25 The other thing that comes to mind when I look

1 at this -- at this bullet point and think about  
2 real-world evidence are licenses, and particularly,  
3 licenses produced by Open Market, Divine's licenses for  
4 the patents.

5 Q And you were here when Ms. Wolanyk testified  
6 as well?

7 A Yes, I was.

8 Q And you heard her testimony that the licenses  
9 executed by Sovereign since its inception, with one  
10 exception, have been lump sums.

11 A That's correct.

12 Q Is that important?

13 A Yes, sir.

14 MR. SATINE: Your Honor, may we approach?

15 (Bench conference.)

16 MR. SATINE: When you're saying they're a  
17 lump sum, are we now talking about the --

18 MR. SAYLES: I'm talking about the  
19 earlier license now, the Transact license.

20 MR. SATINE: He said the Sovereign  
21 license. He said Sovereign.

22 THE COURT: I'll instruct the jury to  
23 disregard the last question.

24 MR. SAYLES: Sure. Yes, sir.

25 (Bench conference concluded.)

1                   THE COURT: All right. The jury -- I've  
2 sustained an objection. I instruct you to disregard the  
3 last question and answer, and Mr. Sayles will restate  
4 his question.

5           Q     (By Mr. Sayles) Let me rephrase this a little  
6 more precisely.

7                   Did you consider the patent license --  
8 licenses entered into, certain ones, by Open Market and  
9 Divine?

10          A     Yes, sir, I did.

11          Q     And how was it that you determined which  
12 patent licenses to look at with regard to Open Market  
13 and Divine?

14          A     Well, I focused on patent licenses that -- and  
15 licenses generally that related to the patented  
16 technology.

17                   I also disregarded any licenses that related  
18 to -- or that involved specifically a lawsuit.

19          Q     All right. And would you tell the Ladies and  
20 Gentlemen of the jury the basis for that sort of  
21 selection, please?

22          A     Well, part of it is the Court's determination,  
23 and the other part comes from my experience in the field  
24 of licensing, and that is that licenses that settle  
25 lawsuits, that once they've been filed, are often



1 influenced by other factors other than the technology  
2 itself.

3 Q All right. Did you consider certain specific  
4 Open Market and Divine licenses that are now in evidence  
5 in this case?

6 A Yes, sir.

7 Q And have you summarized that on Slide 13?

8 A I have.

9 Q And would you explain to the Ladies and  
10 Gentlemen of the Jury what it is that's summarized on  
11 Slide 13, please.

12 A Okay. Well, this provides account of the  
13 different forms of royalties that appear in these patent  
14 licenses.

15 And by form of royalties, I mean whether the  
16 license is structured to be a one-time lump-sum payment,  
17 or if there's royalties that accumulate indefinitely  
18 over time.

19 And all of them actually, in my opinion --  
20 I've separated one out, and I'll discuss it briefly, why  
21 I don't think that's a running royalty either; but all  
22 of them have predetermined or determinable amounts that  
23 stop after a certain period of time. We refer to  
24 that -- we refer to that in the licensing field as being  
25 a lump sum.

1           The one that I listed as being as a lump sum,  
2 plus a variable component, was a license entered into in  
3 October of 2002 between Divine and Bikeecology. I had  
4 included a 4,000-dollar payment.

5           There was a very small running royalty of 0.2  
6 percent of gross sales that was applied, at least small  
7 relative to what Mr. Nawrocki's damages opinion is.

8           And what's important to observe is that I did  
9 some research, and it's in the footnote, that the entity  
10 that that amount related to was sold right around the  
11 time of the -- of that license.

12           So in my mind, from an economic perspective,  
13 that's a lump-sum license as well.

14       Q     All right. Now, are these licenses that  
15 you've summarized on Slide 13, the ones that are in  
16 evidence in this case, are they exhibits that are  
17 indicated on the bottom of the slide here?

18       A     Yes, sir.

19       Q     And are these licenses that were entered into  
20 around the 2000 to 2002 or '3 timeframe?

21       A     Yes, sir.

22       Q     Closer to the time of the hypothetical  
23 negotiation?

24       A     That's correct, yes, sir.

25       Q     And with respect to the running royalty that

1 Mr. Nawrocki has calculated, are these licenses that are  
2 in evidence contradictory of that?

3 A They're very different. Mr. Nawrocki  
4 calculates a running royalty that continues on over a  
5 long period of time, whereas these had predetermined  
6 amounts that were determined -- that are lump sum in  
7 nature.

8 Q All right. And for the patent license in  
9 evidence that indicate that Divine generally entered  
10 into running royalties, have you summarized those on  
11 Slide 13A?

12 A Okay. But I have to correct your question.

13 Q Yes.

14 A I think that they didn't generally enter into  
15 running royalties. They generally entered into lump-sum  
16 licenses.

17 Q You are correct.

18 A And that's summarized in this slide that's up  
19 now.

20 Now, from my perspective, when I was sitting  
21 back in the courtroom, when these licenses were shown,  
22 it seemed that -- particularly during Mr. Nawrocki's  
23 testimony, the focus was on the percentages. But in  
24 each of these, if they're read more closely, these  
25 percentages are really lump-sum amounts.

1                   Say, for example, the third one down --

2                   THE WITNESS: If you can point to that.

3           A       -- Webster Orchard, that, I think, was one  
4 that came up a couple of days ago. It says 2 percent of  
5 gross sales, but it's 2 percent of gross sales in 2001,  
6 only in one year. And that's a calculable lump-sum  
7 amount. And, in fact, that amount turns out to be  
8 \$2,000.

9           Q       (By Mr. Sayles) And you were in the courtroom  
10 when I cross-examined Mr. Nawrocki, and he acknowledged  
11 that that license was through the life of the patent?

12          A       Yes, sir.

13          Q       And that even though this recital is in the  
14 license, you heard him acknowledge that was a one-time  
15 payment?

16          A       That's right.

17          Q       Now, have you also summarized further these  
18 licenses that are in evidence in this case to compare  
19 them to Mr. Nawrocki's damage model?

20          A       I have. I've prepared -- prepared a  
21 demonstrative that shows this. And this is a bit of  
22 a -- it was a bit of a challenge to make, because as  
23 you'll see -- I don't know if you can point to the  
24 axis -- we call it the X axis, the axis that goes up and  
25 down where there's \$30 million, I had to break it

1 because these amounts are so small relative to  
2 Mr. Nawrocki's damages conclusion of \$34 million.

3 And, in fact, when you add it all up -- add  
4 all of the lump sums up, they total just about \$200,000.  
5 Mr. Nawrocki's damages conclusion is about 150 times  
6 larger than that.

7 Q All right. Let me be sure we have this  
8 correctly.

9 Does this slide accurately summarize the  
10 revenues from the Open Market and Divine patent  
11 licenses --

12 A Yes, sir.

13 Q -- that were non-settlements of litigation  
14 lawsuits?

15 A Yes, sir.

16 Q And you're telling us that the total of every  
17 one of them, including the Johnson & Johnson one for a  
18 hundred thousand, is a total of 200,000?

19 A About \$200,000, yes, that's correct.

20 Q And Mr. Nawrocki's calculation of \$34 million  
21 in damages is how much compared to that?

22 A About a hundred and, I think, 65 times higher.  
23 It's more than 150 times higher. And it's a -- it's a  
24 running royalty, so, presumably, it just continues to  
25 grow even larger than -- than that.

1           Q     Did you also consider the Transact single-user  
2 software licenses?

3           A     I did. I considered those as data points.

4           Q     And -- as data points?

5           A     I did.

6           Q     Would you tell the Ladies and Gentlemen of the  
7 Jury what you mean by that in your analysis, please?

8           A     This is something I considered, particularly  
9 given Mr. Ghosh's testimony; and I think we've heard  
10 others beyond Mr. Ghosh, Ms. Wolanyk and technical  
11 experts as well, discuss how the patents are embodied in  
12 the software. So that's a fancy word -- the patents are  
13 included in the software, the patented technology at  
14 least.

15                     And because those transactions were entered  
16 into between willing parties, and the patented  
17 technology was part of the up-front payment, and the  
18 up-front payment is granted access to the patented  
19 technology, I reviewed those up-front portions and  
20 measured them against my damages conclusions.

21           Q     All right. Now, I want you to show us the  
22 summary of that in a moment, but let's get this  
23 straight.

24                     A patent license is different from a software  
25 license.

1           A     Oh, yes, sir, they're different.

2           Q     And with respect to what would have happened  
3 in a hypothetical negotiation in 2001, why do you  
4 consider the Transact software licenses as somehow being  
5 informative?

6           A     Well, because they included access to the  
7 patented technology. The patented technology was some  
8 subset of the software licenses.

9                     They're also meaningful because they're  
10 arm's-length agreements that reflect a bargain between  
11 two parties in the marketplace at arm's length.

12                    And so they are informative in my view of at  
13 least the reasonableness or the reasonable royalty  
14 conclusion in this matter.

15          Q     Did you prepare some slides that demonstrate  
16 the data point of the Transact software licenses?

17          A     Yes, sir, I did.

18          Q     Would -- and are these figures based on source  
19 documents that are in evidence as exhibits that are  
20 marked at the bottom of the slide?

21          A     Yes, sir, that's correct.

22          Q     Hard facts and data?

23          A     Yes, sir.

24          Q     All right. Would you explain what's shown  
25 here?

1           A     So I've reviewed ten of the -- ten of the  
2     software licenses that are of the form that Newegg would  
3     have entered into. Not the commerce service provider  
4     licenses, I set those aside because those involved  
5     companies like AT&T and MCI at the time, which are very  
6     much unlike Newegg.

7                     And I focused more on the vendor-type of  
8     licenses that are -- the licensees in those transactions  
9     are more like Newegg. In fact, that's what Mr. Ghosh  
10    said is that that's the type of license that Newegg  
11    would enter into.

12          Q     All right. In fact, the Ladies and Gentlemen,  
13    of course, along with you and everyone else, heard Mr.  
14    Ghosh's the testimony just prior to yours.

15          A     Yes, sir.

16          Q     Let's move through that very quickly.

17          A     Okay.

18          Q     That's quick enough.

19          A     That's another graphical illustration of the  
20    difference between Mr. Nawrocki's damages conclusion and  
21    the largest of the up-front portions of those software  
22    licenses for Transact.

23                     His conclusion is \$34 million in damages. If  
24    you look at those data points, the largest is about  
25    \$344,000.



1           Q     All right. The third area of disagreement  
2     that you indicated at the beginning that you had was  
3     that Mr. Nawrocki is overreaching with the 25-percent  
4     rule of thumb.

5           A     Yes, sir.

6           Q     And where -- tell the Ladies and Gentlemen of  
7     the Jury what the 25 percent rule of thumb is?

8           A     Well, Mr. Nawrocki conceded this in his  
9     deposition -- or in his cross-examination, that the 25  
10    percent rule of thumb is quite controversial in the  
11    field of licensing. And one of the reasons why is  
12    because it was developed some 30 years ago by one person  
13    who made this observation of a split-up. It was in a  
14    totally different economy, and his observation related  
15    to manufactured and industrial goods.

16                   There's been a lot of academic literature  
17    that's been written that describes that split-up as  
18    being arbitrary in nature. And in today's economy where  
19    products are very sophisticated and patented technology  
20    only comprises a small portion of overall products that  
21    are sold in the marketplace, apportionment is required.

22                   Mr. Nawrocki, when he applied the 25 percent  
23    rule of thumb, applied to it all of the profits from  
24    Newegg's business.

25           Q     Is that your main area of disagreement with

1 him?

2 A Yes, sir.

3 Q And with regard to this 25-percent rule of  
4 thumb, is it a written rule that persons such as  
5 yourself must abide by?

6 A Oh, no, sir. As I said, it's very  
7 controversial. And in my practice I do not use it. I  
8 tend to do other calculations as we've shown here.  
9 If I'm ever going to use it, I will apply it just to the  
10 portion of profits that are attributable to the  
11 invention, and certainly not to everything. And  
12 that's -- that's a very significant criticism of the  
13 rule in literature is that it's often misapplied, as  
14 it's been misapplied here by Mr. Nawrocki.

15 Q All right. Have you prepared a summary slide  
16 that brings all of this together based on the documents  
17 that are in evidence and that you've reviewed?

18 A I have.

19 Q And this is Slide 23. And I'd like you to  
20 tell the Ladies and Gentlemen of the Jury what it  
21 depicts.

22 A Okay. These are each of the data points that  
23 we described throughout my testimony. The first one  
24 being what I call the benchmark rate or an apportionment  
25 calculation.

1           And we will walk through exactly what the math  
2 is one more time. It's a fraction of 1 percent, in  
3 fact, a penny when applied to a hundred-dollar monitor.

4           When it's applied to the royalty base in this  
5 case, the total of that calculation yields about  
6 \$600,000. That's the bar that says benchmark with the  
7 \$599,000 above it.

8           The second category is the total of lump sum  
9 licenses that have been admitted into evidence, the  
10 non-settlement agreements and they total \$200,000.

11           The third is the largest of the up-front  
12 payments for Transact, and that is \$344,000.

13           And then Mr. Nawrocki's damages conclusion is  
14 listed next to that. Again, with a broken axis because  
15 there wasn't room to fit it on a graph.

16           Q     All right. Now, have we covered your areas of  
17 disagreement with Mr. Nawrocki?

18           A     Yes, sir.

19           Q     Let's move to your affirmative opinions.

20                   Have you formed affirmative opinions in this  
21 case?

22           A     Yes, I have.

23           Q     You've heard Mr. Nawrocki testify about a  
24 hypothetical negotiation, right?

25           A     That's right. And we agree upon the date.

1           Q     And what else? Anything else that you  
2 disagree with?

3           A     Well, we disagree a little bit upon the  
4 context. And I would like to spend a little bit more  
5 time discussing that. That's what this slide is  
6 intended to show.

7                     These are two parties, Open Market and Newegg,  
8 sitting down at a negotiating table. It's called a  
9 hypothetical negotiation, but it's -- actually the  
10 premise of this hypothetical negotiation, it's grounded  
11 in economics and financial analysis.

12                    And the intent is to measure what the parties  
13 would have reasonably agreed upon in order for, in this  
14 case, Newegg to have access to the patented technology.

15                    So at this time, in January 2001, we discussed  
16 how Open Market was in dire financial straits and had  
17 not been successful in generating from its software that  
18 embodied the patented invention. That's Open Market's  
19 side of the table.

20                    Then we heard testimony over the last day or  
21 so about Newegg at that point in time being a licensee,  
22 being a start-up. January 2001 is right when the  
23 business started. At that point in time being of  
24 limited financial resources, and hoping to grow its  
25 business over time.

1           Q     All right. Now, just to be clear, of course,  
2 a hypothetical negotiation, by definition, is one that  
3 never took place?

4           A     That's right.

5           Q     But that's the legal framework within which  
6 persons like yourself must analyze this?

7           A     That's correct.

8           Q     And the legal framework within which the jury  
9 must consider it.

10          A     That's right. It's a legal framework, but it  
11 also, as part of the legal framework, it says that it's  
12 between willing parties that are prudent, that have  
13 access to all information.

14                So in that way, even though it's called a  
15 hypothetical negotiation, it's meant to be a real  
16 financial analysis and a real assessment of what would  
17 have reasonably happened back in 2001.

18          Q     And at the hypothetical negotiation would  
19 Newegg be required to take a license?

20          A     Yes, if it wanted to use the patented  
21 technology, yes.

22          Q     But would they be handcuffed in the  
23 hypothetical negotiation situation?

24          A     No. This negotiation, by law, is explicitly  
25 between willing parties.

1           Q     And as a valuation expert, why is this  
2     important?

3           A     Well, it's important because the framework  
4     actually, it's closely correlated with the valuation  
5     theory. For example, valuation -- in my profession, as  
6     an appraiser, we follow the same rules that one would  
7     use to appraise or value a house. And the terminology  
8     regarding the hypothetical negotiation is very close to  
9     the valuation of a home or of a business.

10                It's -- one is required to go back at the time  
11     of the negotiation, or at the time of the valuation, and  
12     to assess the outcome of a transaction between willing  
13     parties with access to factual and objective  
14     information, under no compulsion -- under no compulsion  
15     to buy or sell.

16           Q     All right. And in 2001 would Newegg have had  
17     options, in plain words?

18           A     It would have had options. It could have  
19     taken a license or not taken a license.

20           Q     All right. And what about Transact?

21           A     And it could have used -- it could have taken  
22     a license to Transact as well.

23           Q     All right. I want to pick up the pace a  
24     little bit.

25                Did you -- in your analysis, did you use the

1 analytical framework of the Georgia-Pacific factors?

2 A I did. In fact, Mr. Nawrocki and I, I think  
3 kind of view a lot of these factors in somewhat of a  
4 common way. I think there's one factor that I have  
5 listed as a technical factor that Mr. Nawrocki has as a  
6 commercial factor.

7 I just want to point out one. It's GP Factor  
8 13. And that relates to the portion of the profit that  
9 should be credited to the patented invention.

10 Q And you feel that he didn't give proper  
11 consideration?

12 A That's what I discussed, the portion word.  
13 That's where the apportionment is derived (sic) from.

14 Q All right. Let's get to the bottom line. Do  
15 you have an opinion, based on your background, training,  
16 and experience, at what a reasonable royalty would be in  
17 this case?

18 A Yes, sir, I do.

19 Q And what is that opinion?

20 A It's a lump sum payment of \$500,000.

21 Q And could you explain briefly how you got  
22 there? And you don't have to repeat anything that  
23 you've said.

24 A Well, I assessed the outcome of the  
25 negotiation -- essentially what I did is I reviewed all

1 of the evidence and information that's available to me,  
2 those 20 boxes of data, with an emphasis on reading  
3 financial statements and performing calculations in  
4 order to assess the outcome of what the negotiation  
5 would be.

6 Q All right. Did you summarize your  
7 considerations under the Georgia-Pacific factors by  
8 listing them at the top?

9 A I did. I have a slide for each of these three  
10 buckets: The licensing, technical, and commercial  
11 factors.

12 Q All right. Would you walk us through that,  
13 please?

14 A So the licensing considerations -- we  
15 discussed a lot of this, and so I'll just cover them at  
16 a high level and walk through the slides fairly quickly.

17 I considered actual patent licenses that are  
18 admitted into evidence. I considered Transact and its  
19 value as specifically described by Mr. Ghosh and the  
20 fact that it embodies the patented technology.

21 We also heard Mr. Ghosh describe how Open  
22 Market sought to widely license its patent portfolio.

23 And there's other testimony, actually, that  
24 relates to that as well.

25 Q All right.



1           A     And the license that we're valuating is the  
2 U.S. license to the patents-in-suit.

3           Q     Back in the time frame we've discussed that  
4 are in evidence in this case?

5           A     That's right. And the outcome of the  
6 hypothetical negotiation would yield U.S.-only license  
7 to the patents-in-suit.

8           Q     All right. Would you tell us what is in Slide  
9 26A very quickly, because I think we may have touched on  
10 this?

11          A     Okay. I mentioned in the prior slide how Open  
12 Market's strategy was to broadly license its patents.  
13 That actually comes from Defendant's Exhibit No. 269.

14               In fact, the quote is: Open Market strategy  
15 from its business plans at the time was to broadly  
16 license its patents so as not to slow the growth of  
17 internet commerce and to use them as a defensive tool  
18 against competitors.

19          Q     All right. And in support of your own  
20 affirmative opinion, did you consider the Open Market  
21 and Divine patent licenses --

22          A     I considered those things.

23          Q     -- that are in evidence that we have already  
24 discussed?

25          A     Yes, sir. This is another slide that

1 summarizes those 19 licenses that total \$200,000.

2           If you look at them in a little bit more  
3 detail, they average a little under \$11,000 (sic). The  
4 smallest is \$400,000 and the largest is a hundred  
5 thousand dollars.

6           Q     In support of your affirmative opinion, did  
7 you consider Transact as a data point as you've  
8 described earlier in your disagreements with  
9 Mr. Nawrocki?

10          A     I did. And this next slide, Slide 28,  
11 summarizes that. I saw ten of those licenses. They  
12 averaged about \$200,000 in the up-front portion, a  
13 minimum of a hundred and maximum \$344,000.

14          Q     Did you consider the Houghton-Mifflin company  
15 Transact software license that is in evidence in this  
16 case?

17          A     This is actually one that came up during my  
18 deposition. It's something that I observed along the  
19 way. I have a slide that summarizes that. That license  
20 is Defendant's Exhibit No. 217.

21                I'm not sure -- if I point on the monitor,  
22 does it show up?

23          Q     I can barely see it with my glasses on.

24          A     Yeah, because this is very small. So I will  
25 circle it here.

1 Q Circle it and then read what it says.

2 A So there's a couple of things that pop out in  
3 this license.

4 The list price for the license was \$200,000.  
5 The actual price where it says price per unit was zero.  
6 That reflects a hundred percent discount for the  
7 up-front portion of the license. The access to the  
8 technology was given for free. This I think is an  
9 interesting frame of reference, the extended price is  
10 zero dollars.

11 It's particularly interesting in light of  
12 Ms. Wolanyk's testimony, who -- remember when she  
13 said -- I guess it was on Tuesday, that when she was in  
14 competition in the marketplace against Oracle, Oracle  
15 did the same thing. They gave their software away for  
16 free.

17 Q And this is an example of that as well?

18 A This type of software; that's right.

19 Q All right. Let's go to Slide 30. And is this  
20 a slide that explains -- uh-oh.

21 A How do we get rid of these?

22 Q Looks like we're using carbon paper there.

23 A I did it somehow.

24 Q All right. And is this the technical  
25 considerations that are described in the Georgia-Pacific

1 factors that are briefly referenced 9, 10, and 11?

2 A Yes, sir. And just to cover them very  
3 quickly. The patents don't cover entire software  
4 products.

5 Open Market strategy was to broadly license  
6 this technology. I view it sort of as being  
7 commodity-like in nature in that they wanted the  
8 technology to be widely disseminated.

9 And Mr. Wu said this from a technical point of  
10 view, that the patented claims represent less than  
11 1 percent of the code in Newegg's website.

12 Q All right. And let's go to Slide 31.

13 Did you go through all the commercial  
14 considerations in Georgia-Pacific which are factors 5,  
15 6, 8, 12, and 13?

16 A I did. And these were -- this summarizes my  
17 observations from those -- those factors.

18 Just briefly I will walk through them, if I  
19 may.

20 Q Yes, please.

21 A The fact that Open Market and Newegg weren't  
22 competitors I think is key.

23 Open Market, again, sought to widely  
24 disseminate its technology, and it would have provided  
25 an opportunity for Open Market to do that.

1           There's no evidence at all that the patented  
2 invention drove demand.

3           Transact was unsuccessful. Open Market was  
4 unsuccessful.

5           There's no evidence that Newegg's business  
6 success can be tied to the use of these patents or is  
7 driven by use of these patents.

8           The patented claims are not mentioned in  
9 marketing materials or, in particular, that survey that  
10 we covered very early on in our presentation.

11           It's one of many features on the website, not  
12 to mention the fact that Newegg actually sells stuff,  
13 products that people are interested in at reasonable  
14 prices at timely delivery.

15           Neither Mr. Nawrocki nor I observed any  
16 standard rates in the industry.

17           And then the last factor is the fact that it's  
18 important, in fact critical in my view, to apportion the  
19 benefits from the invention in any sort of damages  
20 calculation.

21       Q     All right. Now, I think that the Ladies and  
22 Gentlemen of the Jury will probably recall that  
23 Mr. Nawrocki and other witnesses agreed that Newegg and  
24 Soverain or Open Market are not competitors?

25       A     That's right.

1           Q     And is that important in a hypothetical  
2 negotiation?

3           A     Oh, it's very important.

4           Q     Why?

5           A     It's called an inventor/promoter relationship.

6 And the royalty rates that are observed in  
7 inventor/promoter relationships, as one might imagine,  
8 are much lower than royalty rates than yield from  
9 licenses between competitors where competitors are using  
10 patents to block one another out of the market or  
11 protect key parts of their products.

12                 Royalties in inventor/promoter relationships  
13 are much lower.

14          Q     All right. And in consideration of your  
15 affirmative opinion, not your criticism of Mr. Nawrocki,  
16 did you consider Open Market's cumulative losses?

17          A     I did. We saw this slide previously. Leading  
18 up to the date of the hypothetical negotiation, Open  
19 Market was losing money at a rapid pace. They lost  
20 \$236.4 million on a cumulative basis.

21          Q     And we've already talked about Transact's  
22 revenue history. Did that factor into your affirmative  
23 opinion?

24          A     That was a consideration I made as well. Its  
25 revenues were falling prior to the hypothetical

1 negotiation.

2 Q Same discussion we had earlier.

3 A Yes, sir.

4 Q All right. Then finally, could you describe  
5 for us your benchmark apportionment analysis?

6 A I can.

7 So this is another way of showing the four  
8 bars that I walked everybody through earlier. And just  
9 to walk through these very quickly again.

10 The starting point. This time I used a  
11 hundred percent instead of a hundred dollars. I take  
12 off 90 percent for the cost of the monitor or whatever  
13 the item is that Newegg is selling. That leaves 10  
14 percent.

15 I allocated 3.7 percent for shipping and  
16 credit card fees. I could have allocated more. This  
17 number could have been -- instead of 6.3 percent, it  
18 could have been 1 or 2 percent.

19 I then took a look at analyst reports and  
20 third-party observations regarding Newegg and its  
21 commercial success and allocated 10 percent of that 6.3  
22 percent to the intuitive layout and the design -- excuse  
23 me, the intuitive layout and design of Newegg's website.

24 Then I drilled down a little bit further. And  
25 although it says here shopping cart/session ID relative

1 contribution, we actually never got down that far. We  
2 talked about some features of the website above and  
3 beyond that, but I said, okay, that's going to have to  
4 suffice for now.

5           So I took the .63 percent we're at now and  
6 multiplied it by 8 percent. That leaves half of  
7 1 percent.

8           Then to apportion that leftover benefit I used  
9 just as a split-up I took 25 percent and gave it to Open  
10 Market and 75 percent to Newegg.

11       Q     All right. Now, this says accused sales times  
12 benchmark, and it has almost 600,000. But what is your  
13 opinion as to a reasonable royalty?

14       A     It's \$500,000.

15       Q     And explain the difference here.

16       A     Well, there's other data points that are less  
17 than \$500,000. And then I think as I walked through,  
18 the assumptions that I made for each of these  
19 calculations are conservative. And had I, in fact, used  
20 1 or 2 percent, this calculation would have yielded,  
21 gee, one-sixth, or \$100,000 instead of \$600,000.

22       Q     Are your -- is your analysis based on hard  
23 evidence?

24       A     Oh, yes, sir.

25       Q     Have you verified your facts and figures?



1           A       Yes, sir.

2 Q Do you feel strongly about this opinion?

3                    A            I do.

4 Q And do you think that the amount that you  
5 stated, less than 500,000, would be a reasonable royalty  
6 in this case in total?

7           A       Yes, sir.

8 MR. SAYLES: I'll pass the witness.

9 THE COURT: All right. Very well.

10                   Let's see, we've been going for -- how  
11 long do you think your cross will take, Counsel?

12 MR. SATINE: I would say about an hour,  
13 Your Honor.

14 THE COURT: I think we'll take our break  
15 before then and give y'all a chance to clear your heads  
16 a little bit.

17 We will be in recess until 2:40.

18 COURT SECURITY OFFICER: All rise.

19 (Recess.)

20 (Jury out.)

21 COURT SECURITY OFFICER: All rise.

22 THE COURT: Please be seated.

23 All right. Before we bring the jury in,  
24 I do have the Court's Charge for you to take a look at.

25 Ms. Ferguson, do you have copies there?

1                   We have two copies for each side, if  
2 y'all would like to come get those. And as I said,  
3 we'll hear objections after we complete all of the  
4 evidence.

5                   MR. ADAMO: Thank you, Your Honor.

6                   THE COURT: You bet.

7                   All right. Anything else before we bring  
8 the jury in?

9                   MR. SAYLES: Not from the Defense. We're  
10 ready to go.

11                  THE COURT: All right. Bring in the  
12 jury.

13                  COURT SECURITY OFFICER: All rise for the  
14 jury.

15                  (Jury in.)

16                  THE COURT: Please be seated.

17                  All right, Counsel. You may proceed.

18                  MR. SATINE: Thank you, Your Honor.

19                  CROSS-EXAMINATION

20 BY MR. SATINE:

21           Q     Good afternoon, Mr. Bakewell.

22           A     Good afternoon.

23           Q     Mr. Bakewell, we've had a number of experts  
24 who have already appeared in this trial, and it's  
25 getting into the afternoon on Thursday, and we're trying

1 to move ahead quickly. So we're going to try to move  
2 through some of this expeditiously, okay?

3 A Okay.

4 Q Now, you told us that you are compensated by  
5 the hour for the work you have performed; is that  
6 correct?

7 A Yes, sir, my firm is.

8 Q How much have you and your firm billed so far  
9 in connection with this lawsuit?

10 A I think approximately \$200,000.

11 Q And you described yourself at one point during  
12 your testimony as an appraiser. Did I hear you  
13 correctly?

14 A Yes, sir.

15 Q Would it also be fair to describe you as a  
16 damages expert?

17 A Yes, sir. In this context, that's correct.

18 Q All right. Have you testified in court over  
19 the last few years as a damages expert on a number of  
20 occasions?

21 A I have, yes.

22 Q Would you say that that now occupies the  
23 majority of your professional life?

24 A No, sir. It's about half.

25 Q About 50 percent of your professional life?

1           A     Yes.

2           Q     Okay.  And just so we're clear, you are not an  
3 economist; is that correct?

4           A     No, sir, I'm not an economist.

5           Q     Okay.  Let's get a few other things out of the  
6 way before we get to your opinions.

7                     Now, you told us that you have assumed that  
8 each of the three Soverain patents in this lawsuit --

9           A     Yes, sir.

10          Q     -- are valid, right?

11          A     That's right.

12          Q     You've told us you assume they are  
13 enforceable, right?

14          A     Yes, sir.

15          Q     You told us you assumed they are infringed by  
16 Newegg, right?

17          A     Yes, sir.

18          Q     Okay.  Is it fair for us to assume that you  
19 are going to make those same assumptions during your  
20 cross-examination, that the three patents in this  
21 lawsuit are valid, are enforceable, and are infringed?

22          A     Yes, sir.

23          Q     Okay.  Now, we heard that you had your  
24 deposition taken in this case, right?

25          A     Yes.

1           Q     In fact, I took your deposition in this case,  
2 right?

3           A     You did.

4           Q     Okay. And you've had a chance to review that  
5 deposition prior to your testimony today?

6           A     Yes, sir.

7           Q     Okay. And you are going to stand by what you  
8 testified to at that deposition, correct?

9           A     I believe so.

10          Q     Okay. And we've heard that you've submitted  
11 expert reports in this case, right?

12          A     Yes, sir.

13          Q     And you have had an opportunity to review  
14 those expert reports before you've taken the stand to  
15 testify today, right?

16          A     That's correct.

17          Q     And you are going to stand by what you said in  
18 those reports, correct?

19          A     I believe so, within context, that's correct.

20          Q     Okay. Now, during your testimony, you kept  
21 referring -- well, you referred several times to the  
22 deposition testimony of Mr. Ghosh.

23                   MR. SATINE: If we could put Slide No. 10  
24 back on the screen.

25          Q     (By Mr. Satine) At the very bottom of that

1 slide, it says: No mention of patented claims, right?

2 A That's right.

3 Q Okay. Well, did you hear the questions and  
4 answers that were posed to Mr. Ghosh in the video that  
5 was played in this courtroom?

6 A I did, yes, sir.

7 Q Did you hear Mr. Ghosh asked: Do you have any  
8 opinion as to the value of the shopping cart technology  
9 in the scheme of the overall Transact product?

10 You heard that?

11 A I did.

12 Q And did you hear Mr. Ghosh say: It's one of  
13 the pieces that's necessary?

14 A Yes, sir.

15 Q But there was no mention of the patented  
16 claims, right?

17 A Not in the quote that's on Slide 10.

18 Q You talked about when you go to the grocery  
19 store to buy a lot of cereal, the grocery cart is free.

20 Do you remember that?

21 A That's right. You're not required to drop  
22 money in when you enter or leave the store. There's no  
23 counter that -- that a grocery store has in order to pay  
24 for every time somebody puts groceries into a grocery  
25 cart, that's right.

1           Q     How much cereal do you buy in supermarkets  
2 which have no shopping cart?

3           A     I have three kids, and so we buy a lot of  
4 cereal and -- that's for sure.

5                     I think all the supermarkets or grocery stores  
6 I've been in have shopping carts.

7           Q     It's sort of necessary to shop in a  
8 supermarket, isn't it?

9           A     Well, when I'm shopping for my kids, it is.  
10                    When I go in by myself, it's certainly not.

11          Q     Okay. Well, were you here in the courtroom  
12 when we played Mr. Ghosh's -- part of Mr. Ghosh's  
13 testimony where he said: It's hard to imagine someone  
14 doing shopping without functionality like that;  
15 otherwise, every transaction would be unique and  
16 different?

17                   And then there was a question, which said:  
18 What do you mean by unique and different?

19                   And he said: You'd have to -- if I was buying  
20 six things from a store, I'd have to buy each one as a  
21 complete transaction.

22                   So it would be no different than if you walked  
23 into a store and had to buy each element, go in and buy  
24 the first thing in the grocery store and come to the  
25 checkout counter, put that in the bag, and go back

1 again.

2 Is a grocery cart necessary to the shopping  
3 experience on Newegg? Yes or no.

4 A Well, your question doesn't --

5 Q You can't answer yes or no?

6 A A yes or no answer doesn't fit.

7 Q Okay.

8 A I'd like to answer it in detail, if I may.

9 Q Is a grocery cart necessary to shopping for  
10 all that cereal for your kids? Yes or no.

11 A Oh, that's -- yes, sir, that's true.

12 Q You don't go in and buy one box of cereal, pay  
13 for it, go out to your car; go in and buy another box of  
14 cereal, pay for it, and go out to your car; go in, buy a  
15 third box, pay for it, go out to your car. Right?

16 A That's an interesting point, because we've  
17 heard testimony throughout this trial by technical  
18 experts. I think Mr. Grimes said those situations  
19 wouldn't infringe.

20 And, in fact, that represents about two-thirds  
21 of the transactions that occur on Newegg's website,  
22 situations like that.

23 Q Sir, did Dr. Grimes testify that you go into  
24 the supermarket to buy cereal for your children -- that  
25 was the question I asked, okay?



1           A     Oh, no. He was testifying about single --

2           Q     Excuse me. Excuse me. I won't interrupt you,  
3 if you won't interrupt me. Try to answer my questions,  
4 okay? Because we really want to get through with this  
5 so the jury can get out of here today --

6           A     Okay. Yes, sir.

7           Q     -- okay?

8                     Mr. Ghosh said, having a shopping cart on a  
9 website is just like having a shopping cart in a  
10 supermarket. You have to have it if you're going to be  
11 buying a couple of boxes of cereal --

12          A     Oh, sure.

13          Q     -- right?

14          A     Yes, sir.

15                    Well, you have to have it as a grocery store,  
16 but not necessarily for a couple of boxes of cereal.  
17 But I understand the question that you're asking.

18          Q     You also told us that Mr. Ghosh said that  
19 Newegg would enter into a single-user license agreement.

20                    Did I hear you correctly?

21          A     Yes, sir.

22          Q     Okay. And then I went to the transcript,  
23 because that wasn't what I thought you said. And let's  
24 see if this refreshes your recollection.

25                    He was asked: If Newegg had come to buy a

1 software license -- we're not talking about hypothetical  
2 negotiation, patent infringement -- if they had come to  
3 buy a software license in 2001, would Open Market have  
4 sold it to them?

5 And he said: Yes.

6 And he was asked: What kind?

7 And the questions and answers that I see  
8 here -- and let's see if this refreshes your  
9 recollection -- would you expect that license to have  
10 been more like a merchant license or more like a CSP  
11 license?

12 And he said: More like a merchant license,  
13 probably.

14 Question: Why is that?

15 Answer: If they were just selling their own  
16 stuff.

17 Question: As opposed to them wanting to host  
18 the stores of third parties?

19 Answer: Right.

20 You are aware that one of the websites that is  
21 an accused website in this lawsuit is Newegg Mall,  
22 right?

23 A Oh, yes, sir. The volumes at Newegg Mall are  
24 virtually immaterial versus what we're talking about  
25 here; but, yes, sir, I'm aware of that.

1 Q Mr. Bakewell --

2 A Yes, sir.

3 Q -- again, if you answer my questions, we'll  
4 finish up --

5 A Yes, sir.

6 Q -- okay?

7 A Yes, sir.

8 Q You are aware that Newegg Mall is an accused  
9 website in this lawsuit, right?

10 A Yes, sir. Uh-huh.

11 Q You are aware that Newegg Mall hosts stores  
12 for third parties, right?

13 A I am, yes, sir.

14 Q And did you hear Mr. Ghosh say: Well, we give  
15 them the single merchant license if they were not  
16 hosting stores for third parties, right?

17 A Yes, sir.

18 Q Okay. Let's talk about the hypothetical  
19 negotiation.

20 At the hypothetical negotiation, Newegg is  
21 required to take a patent license, correct?

22 A Oh, yes, sir.

23 Q Transact is not a patent license, correct?

24 A That's correct. It's a software license.

25 Q At the hypothetical negotiation, the law

1 requires that we assume that Newegg would be a willing  
2 licensee for a patent license, correct?

3 A Yes, sir.

4 Q The law does not require that we assume that  
5 Newegg will be a willing licensee for a software  
6 license.

7 A Oh, no. We're evaluating a patent license,  
8 that's correct.

9 Q Okay. So at the hypothetical, what the  
10 parties are negotiating is a patent license, a license  
11 to the patents, right?

12 A Yes, sir.

13 Q They are not at the negotiating table at this  
14 hypothetical negotiation negotiating a software license  
15 to Transact, right?

16 A That's correct.

17 Q Now, let's talk about the parties at the time  
18 of this hypothetical negotiation.

19 You've reviewed the license agreements that  
20 Open Market entered into for that time period, right?

21 A Yes, sir, I have.

22 Q Did Open Market enter into any license  
23 agreements in 2001 for any of its patents?

24 A Yes, sir.

25 Q And was that patent license that Open Market

1 entered into a patent license for a running royalty in  
2 part? Yes or no.

3 A I'd have to see it. I -- as I sit here, I  
4 don't recall.

5 Q Don't recall.

6 Do you have a copy of the license agreement up  
7 there between Open Market and Internet Number  
8 Corporation? Is that in your books?

9 A No, sir. Where would I find --

10 Q I'm not sure. I didn't prepare those books.  
11 I didn't know we were going into this. I don't even  
12 know if it's an exhibit.

13 MR. ADAMO: Mr. Sayles, will you provide  
14 him one?

15 MR. SAYLES: I'll be happy to.

16 MR. ADAMO: Thank you, sir. I appreciate  
17 it.

18 MR. SATINE: P184, Mr. Sayles. It may  
19 not be in your book.

20 THE WITNESS: Oh, thank you.

21 A Did you say 184?

22 Q (By Mr. Satine) P184.

23 MR. SATINE: Do we have a copy?

24 MR. ADAMO: Yes, we do.

25 THE WITNESS: I don't think I have that.

1 MR. ADAMO: P184?

2 THE WITNESS: I don't have that.

3 MR. SATINE: Okay. I'll do it from here  
4 then.

5 Q (By Mr. Satine) So you don't recall if the  
6 agreement --

7 MR. SATINE: We can take that one --  
8 well, we do have it up on the screen, P184.

9 Q (By Mr. Satine) You don't recall if P184 had  
10 any running royalty elements?

11 A Oh, I do recall this agreement. It was for  
12 different -- different patents.

13 Q That's what I said when I asked the question.  
14 I'm not trying to mislead you. I just asked if they  
15 entered into any patent agreements in 2001 and whether  
16 any of those patent agreements had any running royalty  
17 elements to them.

18 A Oh, that's -- now I remember. That's correct.

19 Q And it did. It did have a running royalty to  
20 it, right?

21 A Yes, sir.

22 Q Okay. Thank you.

23 Now, you told us that at the time of the  
24 hypothetical, Open Market -- I think your words were --  
25 is in dire financial straits, correct? Those were your

1 words?

2 A It could be. I think that the evidence speaks  
3 for itself.

4 Q Okay. Well, the evidence does speak for  
5 itself, and I think the evidence that we've heard was, a  
6 number of months after the date of the hypothetical,  
7 Divine paid about \$70 million to acquire Open Market,  
8 right?

9 A Oh, that's not correct. You're  
10 misunderstanding that transaction.

11 Q Did you hear Ms. Wolanyk's testimony in this  
12 court?

13 A That transaction was stock-for-stock  
14 transaction. That was not a cash transaction --

15 Q And how much --

16 A -- the way you described it.

17 Q Okay. And how much was the stock worth at the  
18 time it was provided by Divine in exchange for the Open  
19 Market stock? \$70 million, right?

20 A The stock was, that's right.

21 Q Okay.

22 A For the entire company, that's right.

23 Q So at this hypothetical negotiation in 2001,  
24 we have Open Market, the owner of the patents, on one  
25 side of the table, right?

1           A     Yes, sir.

2           Q     And we have Newegg on the other side of the  
3 table, right?

4           A     Yes.

5           Q     And this is on the eve of infringement, right  
6 before Open Market -- before Newegg can go into business  
7 and start its websites, correct?

8           A     That's right.

9           Q     Okay. So Newegg is eager to start its  
10 websites, right?

11          A     Presumably, yes.

12          Q     Okay. And we have Open Market, which wants to  
13 get fair value for its patents; is that fair?

14          A     I think that's a fair term. I'd say fair  
15 market value.

16          Q     Okay. They want to get fair rent for the use  
17 of their property, right?

18          A     I can agree with that, yes.

19          Q     Okay. And Newegg, we've heard, is a startup  
20 with very little cash, right?

21          A     That's true.

22          Q     Okay. Newegg -- Newegg, though, has hopes of  
23 some day selling billions of products each year, right?

24          A     Oh, sure, absolutely.

25          Q     But right now they don't have a whole lot of



1 cash at the time of the hypothetical negotiation, right?

2 A Yeah, not a whole lot.

3 Q Okay. So with this situation, isn't it  
4 logical for the two parties sitting at this hypothetical  
5 negotiation to agree that Newegg is going to pay as it  
6 uses the patents so that they don't have to pay  
7 everything upfront when they don't have the money; and  
8 this way, if Newegg's website don't work out, they're  
9 not out the money?

10 Isn't that logical?

11 A No, sir. I think you're -- that's an  
12 incomplete analysis of the situation.

13 Q So you don't agree that's logical, right?

14 A I think it's incomplete.

15 Q It's incomplete.

16 If the parties, at the time of the  
17 hypothetical, agreed to a running royalty, and Newegg's  
18 three websites that are at issue in this lawsuit were  
19 not successful, Newegg wouldn't have had to pay a lot of  
20 money for those patent licenses, right?

21 A It depends on what the royalty rate is.

22 Q If the parties were having -- at this  
23 hypothetical negotiation, Open Market would have wanted  
24 to have recognition by the industry for its patents,  
25 wouldn't it?

1           A     Well, sure.

2           Q     Okay.

3           A     Absolutely.

4           Q     It would want to have a stream of revenue  
5 continuing, because Open Market wasn't closing its doors  
6 yet. It didn't get purchased by Divine for some time,  
7 right?

8           A     Oh, no. That's contrary to my experience in  
9 licensing. A company in the situation that Open Market  
10 was in that needed cash would be more inclined to accept  
11 or negotiate for an upfront payment in order to continue  
12 to fund its business.

13          Q     So, in your opinion, Open Market would have  
14 said to themselves: Well, we're going to get acquired  
15 in a few months by Divine, so instead of having Divine  
16 pay \$70 million, we'll have them pay \$70,500,000? That  
17 would have been what's going through Open Market's mind?

18          A     No, sir. That's misleading. There was no  
19 cash in that transaction, so that's not the way that the  
20 parties would have evaluated it.

21          Q     They received stock worth \$70 million, the  
22 Open Market stock?

23          A     Stock exchange. There was no cash.

24          Q     But the stock was marketable, right? People  
25 could sell it. It was traded on the New York Stock

1 Exchange?

2 A Yeah. I'm not sure if I would use that term,  
3 but that's possible.

4 Q Were you here in the courtroom when Mr. Cheng  
5 testified?

6 A Yes, I was.

7 Q Did you hear him testify how many patent  
8 licenses Newegg has?

9 A Yes, I did.

10 Q How many?

11 A There's a handful.

12 Q Well, I heard him say that they have one  
13 patent license. You heard him say a handful?

14 A That's the one that I remember.

15 Q Well, now, we're sort of passing each other in  
16 the night.

17 I thought I said I heard him say they have one  
18 patent license. You said they have a handful. Handful  
19 in my hand is five. So one or five?

20 A No, sir. What Mr. Cheng testified is that  
21 that license was to a pool of patents.

22 Q But how many --

23 A A pool --

24 Q -- license agreement?

25 A It's one license agreement --

1 Q Thank you.

2 A -- covering effective license agreements  
3 between an array of parties, an array of patents.

4 That's what I meant by a handful, sir.

5 Q Okay. And the one license agreement that  
6 Newegg has is a running royalty. That was Mr. Cheng's  
7 testimony, correct?

8 A The one that totaled \$4,000 per year, is what  
9 he testified.

10 Q As a running royalty, correct?

11 A That's correct.

12 Q Okay. You could have answered that with a yes  
13 or no, right?

14 A Well, it wouldn't have been a complete answer,  
15 sir.

16 Q Correct is not complete. Got it. Okay.

17 I tell you what, let's talk about Transact,  
18 okay?

19 Now, you've told us you're going to stand by  
20 what you said in your reports, right?

21 A Yes, sir.

22 Q And in your reports --

23 A Within context, I will.

24 Q Okay. Well, we'll give you a copy of your  
25 report, if you think I'm misquoting you.

1           In your reports, you said, according to an  
2 Open Market document, Open Market held approximately 30  
3 percent of the E-commerce software market by the end of  
4 1998.

5           Do you stand by that statement?

6       A     Oh, yes, sir. I think that's a fact.

7       Q     Okay. Open Market's share of that market at  
8 that time was substantially larger than Microsoft's  
9 share of the market, right?

10      A     I believe we heard testimony to that effect.

11      Q     Would you agree with that?

12      A     I don't have any reason to disagree.

13      Q     Well, where did you get the information about  
14 Open Market's share? Did you read that whole document?

15      A     I did.

16      Q     Did you see anything in there about anybody  
17 else's share of the market?

18      A     I don't recall, but I can agree with your  
19 question.

20      Q     Do you recall if you saw anything about IBM's  
21 share of the market?

22      A     I think that IBM's market share was smaller.

23      Q     In fact, if we added up IBM's share of the  
24 market and Microsoft's share of the market, they still  
25 didn't come close to Open Market's share of the market,

1 right?

2 A Oh, that's possible.

3 Q I know it's possible, but do you remember?

4 A I don't remember exactly, but I think that  
5 that's consistent with my general recollection of the  
6 document, yes, sir.

7 Q You are going to stand by what you said in  
8 your reports; that you reviewed information in this case  
9 concerning the price of single merchant license fees for  
10 Transact, right?

11 A Yes, sir.

12 Q And you saw information in this case -- let me  
13 go to your report, so I don't take it out of context.

14 Bear with me.

15 You said in your report that Mr. Ghosh  
16 testified that a single merchant license fee for  
17 Transact software ranged between \$0.1 million and \$1  
18 million.

19 You said that in your report, right?

20 A Oh, yes, sir.

21 Q You stand by that statement?

22 A That's what he said, yes, sir.

23 Q You saw other documents which also said that  
24 Transact single merchant software licenses sold for \$1  
25 million or more, didn't you?

1           A     I've seen descriptions to that effect.

2           Q     Is that a yes?

3           A     Descriptions. I'm not sure exactly what your  
4 question was, but I think I agree with it. I had  
5 never -- I haven't seen actual licenses. That's what  
6 I'm trying to clarify.

7           Q     That's right.

8                     In your report, you said that Open Market sold  
9 approximately 12,000 licenses of Transact software,  
10 correct?

11          A     That's right.

12          Q     Okay. And then you put up on your slides and  
13 you told us you reviewed 10 of those 12,000 licenses for  
14 purposes of that slide, right?

15          A     That's right.

16          Q     Were you here in the courtroom when Mr. Treese  
17 testified on Tuesday morning?

18          A     Yes.

19          Q     Did you hear Mr. Treese testify that Disney  
20 was a Transact licensee?

21          A     Yes, I recall that.

22          Q     Have you been able to review the Disney  
23 Transact license?

24          A     No, I haven't seen that.

25          Q     Got lost somewhere at Divine, right?

1           A     I'm not sure why the reason is that I don't  
2 have -- haven't had access to it.

3           Q     Mr. Treese testified that 3Com had a Transact  
4 license, right?

5           A     I recall that.

6           Q     Do you know if anybody's been able to find a  
7 copy of that license?

8           A     I haven't seen it.

9           Q     Mr. Treese testified that the Tribune Company  
10 had a Transact license, right?

11          A     I believe so.

12          Q     Do you know if anybody's been able to locate a  
13 copy of that license?

14          A     I haven't seen it.

15          Q     Mr. Treese testified that the Chicago Tribune  
16 had a Transact license, right?

17          A     Is that what you just said?

18          Q     No. I said Tribune Company, and then  
19 Mr. Treese also -- okay. He said the Tribune Company,  
20 which owns the Chicago Tribune, so I'll stay with that.

21                 Okay. Were you here in the courtroom when  
22 Mr. Treese testified that the typical price for a basic  
23 corporate customer license to Transact was in the range  
24 of \$125,000 to \$250,000?

25          A     Oh, yes, sir.



1           Q     Were you here in the courtroom when Mr. Treese  
2 testified that there were additional costs to that  
3 license?

4           A     I was.

5           Q     You were here when he talked about  
6 installation services, right?

7           A     Yes.

8           Q     You were here when he talked about annual  
9 software maintenance for updates and bug fixes?

10          A     Yes, sir.

11          Q     You were here when he talked about  
12 customization, right?

13          A     Yes.

14          Q     You were here when he talked about  
15 integration, right?

16          A     I was.

17          Q     You were here when he said that customization  
18 costs could run anywhere from \$50,000 to several hundred  
19 thousand dollars, right?

20          A     Oh, yes.

21          Q     You were here when he said annual service  
22 charges would run around 15 to 20 percent of the  
23 original license price, right?

24          A     No. I think he said that they could. I don't  
25 think that he said that they would absolutely.

1 Q Well, I suggest to you that --

2 MR. SATINE: And we can put -- I'm not  
3 sure if we can put up the transcript on the screen. It  
4 was Page 113 of the transcript from Tuesday in the  
5 morning.

6 And if we can blow that page up. There  
7 we go. Lines 12 through 17.

8 Q (By Mr. Satine) Does that help refresh your  
9 recollection as to whether or not that's what Mr. Treese  
10 said?

11 A Oh, that's consistent with -- yes, sir, that's  
12 consistent with my recollection and the documents. I  
13 don't think the documents indicate that there's any  
14 automatic attachment of maintenance on an annual basis  
15 to the upfront license fees.

16 In fact, I covered that during my  
17 presentation. And that's one of the things that  
18 Mr. Nawrocki and I agree upon.

19 Q You were here in the courtroom when  
20 Ms. Wolanyk testified on Tuesday, right?

21 A Yes, sir, I was.

22 Q Ms. Wolanyk testified that a Transact license  
23 could cost millions of dollars when you added up all the  
24 costs to the software licensee, right?

25 A It could.

1 Q That's right, could.

2 A That's right.

3 Q Open Market offered two types of Transact  
4 licenses, right?

5 A Yes, sir.

6 Q Open Market offered single-user licenses,  
7 right?

8 A That's right.

9 Q Open Market offered commerce -- commerce  
10 service provider licenses, right?

11 A Yes, sir.

12 Q And one of the differences between these two  
13 licenses is that a commerce -- commerce serve provider  
14 license or CSP license allowed a company like Newegg to  
15 host stores of third parties on a website like Newegg  
16 Mall, right?

17 A That's correct.

18 Q For purposes of your report and testimony here  
19 in this courtroom, you assumed that Newegg could host  
20 stores of third parties on neweggmall.com without a CSP  
21 license, right?

22 All it needed was a single-merchant Transact  
23 license. That was your testimony, right?

24 A I'm not sure I would agree with that.

25 Q So would -- if Newegg had been bargaining to

1 purchase Transact licenses for all of its websites,  
2 would it have needed a CSP license for the Newegg Mall  
3 website?

4 A No, sir. According to Mr. Ghosh, it would  
5 have needed a single-user license.

6 Q I thought we covered that part of Mr. Ghosh's  
7 testimony. Let's go back to it.

8 A I thought we did, and I thought we were clear.

9 Q I guess we're not. Let's go through it again.

10 Mr. Ghosh was asked: In your experience,  
11 would you expect that license to have been more like a  
12 merchant license or more like a CSP license?

13 Answer: More like a merchant license,  
14 probably.

15 Question: Why is that?

16 Answer: If they were just selling their own  
17 stuff.

18 Question: As opposed to them wanting to host  
19 the stores of third parties?

20 Answer: Right.

21 Mr. Ghosh said that if Newegg had wanted a  
22 Transact license to operate the Newegg Mall website, one  
23 of the accused websites in this lawsuit, it would need a  
24 CSP license. Isn't that what he said?

25 A No, sir. He said the license overall would be

1 more like a single-user license.

2 Q Well, we've gone through the testimony now  
3 three times in court. The jury heard it, as we all did,  
4 on the video. I've read it a few times. The jury will  
5 work it out. And we're going to move on.

6 For purposes of your testimony, you assumed  
7 that Newegg could host all three of its websites on --  
8 it could operate all three of its websites with one  
9 single-user license, correct?

10 A I think it's fair to assume that my thought  
11 process is that it would all be covered under one  
12 license entered into around the time of the hypothetical  
13 negotiation.

14 Q That was your --

15 A That's consistent with the licenses I  
16 reviewed, yes.

17 Q Okay. That was your thought process.

18 And which witness came into this courtroom and  
19 testified that that was Open Market's thought process?

20 Was it Mr. Ghosh?

21 A Well, that's what we had discussed before when  
22 he said it was more like or would have been more like a  
23 single-user license.

24 I think that each license is an individual  
25 license, and the parameters would have been negotiated

1 on a unique basis.

2 Q And that's what you think Mr. Ghosh testified  
3 to, right?

4 A That's what his testimony meant to me, yes,  
5 sir.

6 Q Now, you told us that the price of one  
7 single-user Transact software license was no more than  
8 344,014, correct?

9 A That's correct. Of those that I listed,  
10 that's right.

11 Q And \$344,014 is the amount that Corel agreed  
12 to pay for a single-user Transact license, right?

13 A Yes. I'm familiar with that license, yes,  
14 sir.

15 Q Okay. But \$344,014 was just one of the fees  
16 that Corel agreed to pay in connection with that  
17 license, right?

18 A Oh, no, sir. I disagree. That 300 and -- may  
19 I explain?

20 Q No.

21 A Okay.

22 Q If you disagree, we'll see if we can work it  
23 out.

24 A I'll find the time to explain.

25 Q The Corel software license agreement required

1 Corel to pay for maintenance and support, didn't it?

2 A I believe that it did, yes, sir.

3 Q The payment for maintenance and support is not  
4 included in the \$344,014, right?

5 A That's right. It's not.

6 Q The Corel software license agreement for  
7 Transact required Corel to pay transaction fees, right?

8 A Yes, sir.

9 Q Corel was required to pay a fee based on the  
10 number of transactions on its website, right?

11 A Yes, sir.

12 Q The transaction fee to be paid by Corel ranged  
13 up to 25 cents per transaction, correct?

14 A I think that's consistent with my memory, yes,  
15 sir.

16 Q The transaction fee to be paid by Corel of up  
17 to 25 cents per transaction was not included in the  
18 \$344,014, right?

19 A That's correct.

20 Q The Corel software license agreement for  
21 Transact required Corel to also pay a subscription fee,  
22 correct?

23 A I believe so.

24 Q The subscription --

25 A Now, this is where -- I don't recall how that

1 \$344,000 was split up, but there's more than just the  
2 software license fee in that \$344,000. There's other  
3 amounts as well.

4 So I was actually being conservative by taking  
5 that full amount.

6 Q I'm sorry. I took my glasses off. Do you  
7 remember at your deposition apologizing for how small  
8 the font was in your report on these charts?

9 A Oh, yeah. And if you show it now, I'll  
10 apologize again. That is some small font. I think I  
11 set a record.

12 Q Okay. Do you have a copy of your first  
13 witness report -- your first expert report up there, or  
14 we'll get you one.

15 A Not unless you gave it to me.

16 MR. SATINE: Your Honor, may I approach  
17 the witness?

18 THE COURT: Yes, you may.

19 Q (By Mr. Satine) Now, Mr. Bakewell, since I've  
20 already found it, if you could go to Exhibit 7 in your  
21 report, Page 3 of 8, and it's the first one on that  
22 page.

23 A Oh, yes.

24 Q Okay. And you have several columns there in  
25 that chart, right?



1           A     Yes, sir.

2           Q     For the licensee Corel, you have a column for  
3 Total License Fees, right?

4           A     That's right.

5           Q     And then next to that you have another column  
6 for Training and Implementation/Maintenance and Support  
7 Fees, right?

8           A     Yes, sir.

9           Q     And next to that you have another column which  
10 is entitled Merchant Fees Licenses. You have not  
11 applicable for Corel, right?

12          A     Yes.

13          Q     Next to that you have another column that says  
14 Transaction Fees, and you filled that in for Corel,  
15 right?

16          A     Yes, sir.

17          Q     Next to that you have another column that says  
18 Additional Fees, and you filled that in for Corel,  
19 right?

20          A     Yes.

21          Q     And in that column it talks about subscription  
22 fees, right?

23          A     That's right.

24          Q     And the subscription fee to be paid by Corel  
25 was 1 percent of Corel's gross revenues from its sales

1 of subscriptions, right?

2 A Yes.

3 Q And Corel was required to pay a subscription  
4 fee for each year that it used Transact, right?

5 A I believe so, yes.

6 Q And the payment by Corel for subscription fees  
7 was not included in the \$344,014, right?

8 A No, sir.

9 Q The Corel software license agreement to  
10 Transact did not allow Corel to have access to  
11 Transact's source code, correct?

12 A Oh, no, it didn't. I agree with that.

13 Q Okay. The Corel software license agreement to  
14 Transact did not allow Corel to change or modify the  
15 Transact source code, correct?

16 A That's correct.

17 Q Do you know of your own knowledge whether  
18 Newegg, in 2001 --

19 MR. SATINE: Strike that.

20 Q (By Mr. Satine) Let me ask it this way:

21 At your deposition, do you remember if I asked  
22 you if you knew whether Newegg would have needed access  
23 to the Transact source code if it wanted to use Transact  
24 to operate newegg.com? Do you remember that question?

25 A Yes.

1           Q     Do you remember that your answer -- what your  
2 answer was?

3           A     Not exactly.

4           Q     Remember you said you would have to go back  
5 and ask Mr. Tittel?

6           A     I may have said that, yes.

7           Q     Did you hear Mr. Tittel testify about that in  
8 this courtroom, when they would have had to modify --  
9 needed access to the Transact source code if Newegg  
10 wanted to use Transact to operate newegg.com?

11 Mr. Tittel testified about that as an expert?

12          A     Frankly, I don't recall.

13          Q     Do you remember at your deposition I asked you  
14 whether Newegg would have needed to make changes to any  
15 source code, its own source code or any source code, in  
16 order to integrate Transact into what it had, all those  
17 lines of computer code? Remember that?

18          A     Somewhat, yes.

19          Q     Do you remember what your answer was?

20          A     Not exactly. I may have deferred to  
21 Mr. Tittel.

22          Q     You did refer to Mr. Tittel?

23          A     He's the technical expert.

24          Q     Did Mr. Tittel come into this courtroom and  
25 testify about that?



1 15 through Line 20, and then we're going to go over to  
2 Page 102 next.

3 Q (By Mr. Satine) Remember I asked you: Do you  
4 have the technical expertise to opine as to how long it  
5 would have taken Newegg to integrate the Transact  
6 product into its software -- software code in January of  
7 2001?

8 And your answer was: No, not from a technical  
9 point of view.

10 A That's right.

11 MR. SATINE: Now if we can go to Page  
12 102, Lines 11 through 13.

13 Q (By Mr. Satine) Do you remember if I asked  
14 you: Do you identify the amount of time it would take  
15 somewhere in your report?

16 And you said: No, sir.

17 Right?

18 A That's right. That's what I said.

19 Q And as of today you still cannot provide that  
20 information, right?

21 A Yes, sir, that's correct.

22 Q Do you know how many sales Newegg would have  
23 lost if it had delayed its entry into the marketplace in  
24 2001 in order to implement the Transact software?

25 A No, sir.

1 Q Haven't done that calculation?

2 A No.

3 Q Haven't done any economic analysis about that?

4 A Not of that in particular, no.

5 Q The Corel software license agreement does not  
6 contain a grant of a license to use the patents in this  
7 lawsuit separate and apart from the Transact software,  
8 right?

9 A That's right. It's not a patent license. I  
10 agree with that.

11 Q Yes or no: You assume that at the  
12 hypothetical negotiation Newegg had the option of buying  
13 a Transact software license instead of paying a royalty  
14 for a patent license, yes or no?

15 A The hypothetical negotiation involves rights  
16 to a patent and its valuation of a patent license.

17 Q So that means at the hypothetical negotiation  
18 Newegg did not have the option?

19 A Oh, no, sir.

20 Q Oh, they had the option at the hypothetical  
21 negotiation?

22 A No, you got my answer backwards. No, they  
23 didn't have the option.

24 Q Okay. So let's be sure that we're not  
25 crossing paths here.

1           At the hypothetical negotiation Newegg's only  
2 option is to take a patent license, right?

3           A     That's right.

4           Q     At the hypothetical negotiation Newegg has no  
5 option of saying, no, we're not taking a patent license;  
6 we're going to purchase a software license to Transact  
7 instead, right?

8           A     The hypothetical negotiation values a patent  
9 license. Other options in terms of software licenses  
10 are certainly relevant considerations and would inform  
11 the negotiation. But it involves a patent license.

12          Q     Does that mean the answer to my question is  
13 yes?

14          A     Well, we got backwards with yes and no.  
15 My answer to your question is that the hypothetical  
16 negotiation involves the taking of the patent license.

17          Q     Okay. So let's try to make sure we're all  
18 talking about the same thing.

19                Since the hypothetical negotiation deals with  
20 the taking of a patent license, one of the parties at  
21 the hypothetical negotiation can't say: Nope, no patent  
22 license for me, I'm going to buy the Transact software  
23 license?

24          A     Oh, I agree with that. That's correct.

25          Q     Do you agree that TigerDirect.com is a website

1 which competes with Newegg?

2 A I believe so.

3 Q Do you believe that TigerDirect does not have  
4 a software license to use Soverain's Transact software?

5 A Yes, I agree.

6 Q You agree that TigerDirect has a patent  
7 license from Soverain?

8 A Yes, sir.

9 Q Do you agree that TigerDirect has a patent  
10 license from Soverain to use the patents in this  
11 lawsuit?

12 A Yes, sir.

13 Q Do you agree that Amazon.com is a website that  
14 competes with newegg.com?

15 A In a limited sense, yes, sir.

16 Q In a limited sense.

17 Have you reviewed Newegg's S-1 filings with  
18 the Securities and Exchange Commission of the United  
19 States?

20 A I have. I believe Amazon is listed as a  
21 competitor.

22 Q Okay. Amazon does not have a software license  
23 to use Soverain's Transact software, correct?

24 A That's correct.

25 Q Amazon has a patent license from Soverain,



1 correct?

2 A Oh, yes, sir.

3 Q Amazon has a patent license from Soverain to  
4 use the three patents in this lawsuit, correct?

5 A Yes.

6 Q Now, let's talk a little bit about patent  
7 licenses.

8 You went through patent licenses that you  
9 reviewed the patents-in-suit, right?

10 A Yes, sir.

11 Q And you told us that you excluded from your  
12 valuation any patent licenses that resulted from the  
13 settlement of the lawsuit, right?

14 A Yes. I made an effort to differentiate  
15 between licenses that settled a lawsuit where a  
16 complaint was filed.

17 Q Okay. So you used one of the two Open Market  
18 agreements, right?

19 A Yes, sir.

20 Q You used 18 of the 32 Divine license  
21 agreements, right?

22 A Yes, sir.

23 Q You used none of the Soverain granted license  
24 agreements, right?

25 A That's correct.

1 Q So you didn't consider in the analysis on that  
2 bar chart Amazon.com, right?

3 A That's right.

4 Q You didn't put Gap up there, right?

5 A I did not.

6 Q You didn't put Redcats up there, right?

7 A That's right.

8 Q Didn't put Zappos up there, right?

9 A Yes.

10 Q Didn't put TigerDirect up there?

11 A Yes, sir. I agree with that.

12 Q Now, you and Mr. Sayles did talk about the  
13 Divine licenses and the one Open Market license to  
14 Johnson & Johnson?

15 A We did.

16 Q Okay. And you compared Mr. Nawrocki's royalty  
17 calculation to what you said were these real-world  
18 patent licenses, right?

19 A Yes, sir.

20 Q Okay. Well, let's see if we can do a  
21 comparison, also.

22 MR. SATINE: Your Honor, may I approach  
23 and put something on the easel, if somebody can do that?

24 THE COURT: Yes, you may.

25 Q (By Mr. Sayles) Okay. You were here in the

1 courtroom when Mr. Nawrocki went through that summary  
2 of royalty damages, right?

3 A Oh, yes, sir, I was.

4 Q Let's talk about some of your real-world  
5 patent licenses. Let's start with the license to  
6 Cadence 120. That was a patent license from Divine,  
7 right?

8 A Yes, sir.

9 Q That was one of the licenses on your bar  
10 chart, right?

11 A Yes.

12 Q That was a license in which Cadence agreed to  
13 pay a royalty of \$1,000 or 1 percent of its gross sales  
14 from the previous year, whichever was greater, right?

15 A That's what it said, 1 percent of the sales  
16 for the previous year.

17 Q So if Corel paid a thousand dollars, that  
18 means that its gross sales were less than \$100,000,  
19 right?

20 A I think you can deduce that, yes, sir.

21 Q But if it paid more than a thousand dollars,  
22 that means it had sales of more than \$100,000, right?

23 A I think so. That's right. During that one  
24 year.

25 Q Okay. The first full year of the damages

1 period in this case is 2008, right?

2 A Yes, sir.

3 Q Newegg's gross sales in 2008 were  
4 approximately \$2 billion, right?

5 A That sounds about right.

6 Q Okay. If Newegg agreed to pay a royalty of  
7 \$1,000 or 1 percent of its 2008 gross sales, whichever  
8 is greater, Newegg would be paying a royalty of?

9 MR. SAYLES: Your Honor, before we go  
10 into this any further, I'm going to object to that. The  
11 hypothetical negotiation is 2001, not 2008. So I object  
12 to this as irrelevant, and it's also misleading.

13 THE COURT: Okay. Restate your question,  
14 Counsel.

15 Q (By Mr. Satine) Is Plaintiff in this case  
16 seeking damages for 2001?

17 A No, sir.

18 Q Is Plaintiff in this case seeking damages for  
19 a period that starts at the end of 2007?

20 A Yes, sir.

21 Q The parties to the hypothetical negotiation  
22 would have been negotiating for a license agreement  
23 which would cover the period in this lawsuit, right?

24 A I think that's actually incorrect.

25 Q That's incorrect. So, in other words, what

1 you're saying is, when we get to court and we do a  
2 hypothetical negotiation, and we're looking at a time  
3 period from late 2007 until April 2010, what we really  
4 need to do is roll back to 2001 and say, how much would  
5 the parties have paid then based on the usage as of the  
6 date of a hypothetical when Newegg has not yet gone into  
7 business?

8 A That's right. The facts and circumstances as  
9 of that date would have been evaluated.

10 On the other hand, the damages period is from  
11 November 2007 until the date of the lawsuit.

12 Q Have you ever heard of the book of wisdom?

13 A Yes, sir.

14 Q That enables the parties at the hypothetical  
15 negotiation to sort of open this hypothetical book and  
16 look at what's going to be happening, right?

17 A That's correct.

18 Q Okay. So at this hypothetical negotiation in  
19 2001, Newegg and Open Market are trying to gather all  
20 the information they can. They would be able to look in  
21 this book of wisdom and take a look at what Newegg's  
22 growth is going to be in future years, right?

23 A That's right. Just like the other licenses,  
24 the parties would have anticipated growth and considered  
25 that in the outcome of the license they negotiated.

1           Q     Okay. And if the parties are going to have a  
2 fair and reasonable negotiation, and Newegg is going to  
3 say, well, wait a minute Cadence is paying 1 percent of  
4 their gross sales, wouldn't it be fair and reasonable  
5 for Open Market to say, we need to look at your gross  
6 sales and what are they going to be, and let's apply  
7 1 percent to that just to get another data point on a  
8 real-world patent license data point.

9           A     For that one year of start-up business, that  
10 data point is a relevant consideration. That's right.  
11 The parties would have known that those percentages were  
12 applied to one year of business, typically early years  
13 of business, and that's it.

14          Q     Okay. So we're in a court of law now.  
15 There's a lawsuit, it's gone on for years. Soverain is  
16 seeking damages for a period from late 2007 to 2010.  
17 But when we calculate reasonable royalty damages, what  
18 we look at is Newegg's use of the soft -- of the  
19 patented technology back in 2001, not in 2008 and 2009  
20 and 2010, right?

21          A     Oh, no, sir, that's not what I said, if that's  
22 what you're implying.

23          Q     Okay. So at this hypothetical negotiation,  
24 somebody on Open Market's side of the table would have  
25 said, yes, Cadence paid 1 percent of its gross sales for

1 1 year, but look at what your gross sales are. Look at  
2 what your gross sales are going to be. Let's talk about  
3 what 1 percent of that would be as we try to determine  
4 what is a fair and reasonable patent license royalty to  
5 cover from 2001 through November 2007, which Soverain is  
6 not seeking damages for in this lawsuit, and then from  
7 November 2007 until April 2010.

8           Isn't that something that reasonable people  
9 would do at a hypothetical negotiation?

10          A     Two considerations, I think, are relevant.  
11 The first is that most, if not every, business that  
12 starts up has anticipations to grow over time. And I'm  
13 sure that those other licensees had reasonable  
14 expectations to grow over time. Yet they entered into  
15 licenses that were capped, that had lump sums of only  
16 one year during the start-up year. That's a very  
17 important consideration, and I think that Newegg would  
18 have reasonably expected to get a similar deal.

19           The fact that Newegg has been successful I  
20 think is not something that should be held over their  
21 head or against them, because all those parties  
22 anticipated being successful. That's Point No. 1,  
23 Mr. Satine.

24          Q     Uh-huh.

25          A     Point No. 2 is that the calculation that I did

1 for apportionment considers the sales during the damages  
2 period, not during 2001. So just to be clear, when I  
3 calculated damages in the apportionment calculation, I  
4 used sales during the damages period, yet the result of  
5 that calculation was \$600,000.

6 Q So when you did your apportionment analysis,  
7 you thought it was reasonable to look at sales during  
8 the damages period. But at the hypothetical  
9 negotiation, it would have been unreasonable for Open  
10 Market and Newegg to look at the sales during the  
11 damages period? That's your testimony, right?

12 A Well, I don't -- I don't see how you can ask  
13 that question given my prior answer. So maybe I should  
14 try again.

15 Q Well, I guess that means you can't answer my  
16 question, correct?

17 A No, I think I've answered your question.

18 Q Okay.

19 A I think it's very clear.

20 Q Let's look at another of your real-world  
21 patent licenses.

22 Divine entered into a patent license with  
23 Odimo, correct?

24 A Oh, yes, sir.

25 Q And the agreement with Odimo was that Odimo,



1 for each one of its 35,000 shopping cart transactions,  
2 would pay a royalty which represented approximately 85  
3 cents per transaction, right?

4 A During one year, a start-up year.

5 Q During one year?

6 A It's very important. In your questions, you  
7 keep leaving that out. That's an important  
8 consideration, critical, in fact, in those licenses.

9 Q So would it have been fair at the hypothetical  
10 negotiation for the parties to say, let's look at the  
11 number of transactions in 2008 and let's multiply that  
12 by 85 cents per transaction to get another data point to  
13 discuss? Would that have been fair?

14 A No, sir.

15 Q That wouldn't be fair.

16 Would it have been fair at this hypothetical  
17 negotiation for the parties to say, let's look at the  
18 number of transactions in 2009 and multiply that by 85  
19 cents to get another data point? That's not fair?

20 A Sir, that's not how -- sir, that's not how  
21 those licenses are structured. They're not -- they're  
22 not a function of anticipated sales some eight or nine  
23 years into the future. They're a function of one year  
24 historical sales.

25 And the gross amount of those licenses I think

1 is also a relevant consideration. None of them come  
2 anywhere near to the damages conclusion here. I mean,  
3 the damages conclusion here, as I mentioned, is 165  
4 times higher than all of those licenses if I add them up  
5 in total.

6 Q And it's 165 times higher because we have such  
7 a larger royalty base, right?

8 A A larger royalty base and a larger royalty  
9 rate, that's for sure, absolutely.

10 Q Is 80 cents per transaction higher than 85  
11 cents per transaction that Odimo paid?

12 A 1.20 is. That's 50 percent higher.

13 Q They were paying 85 cents per shopping cart  
14 transaction. For the first two patents on that chart,  
15 the rate is 80 cents. That is five cents less than  
16 Odimo was paying, right?

17 A That math is correct. But which, again,  
18 you're leaving out is that was for one year, a start-up  
19 year. They didn't -- that license did not say, let's  
20 look at what your sales maybe will be in 2010, and if  
21 you're really successful as a business, we're going to  
22 sock it to you. They don't say that.

23 Q Some of the Divine licenses were not for one  
24 year, right?

25 A That's right. I think that's correct.

1           Q     Some of them covered a period of several  
2 years, right?

3           A     Start-up years, that's right.

4           Q     You and Mr. Sayles talked about a license  
5 agreement that was for \$400, right?

6           A     Yes, sir.

7           Q     That was the license agreement that Divine  
8 entered with a company by the name of LH Internet,  
9 correct?

10          A     I vaguely recall that.

11          Q     And LH Internet agreed to pay Divine 2 percent  
12 of its gross sales over the internet for one year,  
13 right?

14          A     That's what the license says.

15          Q     Okay. But, again, your position is at the  
16 hypothetical negotiation it would have been unreasonable  
17 for Open Market to say, what's fair is fair. If you  
18 want to point to these licenses and say they only paid  
19 \$400 based on 2 percent of their gross sales, let's look  
20 at 2 percent of your gross sales in the damages period.

21          A     Yeah, that's unreasonable, sir. That's  
22 unreasonable and it's misleading and it's inconsistent  
23 with the licenses.

24          Q     Let's put your Slide 13A back up on the  
25 screen.

1 THE COURT: Counsel, let me ask about how  
2 much longer you think you have on cross? We've been  
3 going for about an hour now.

4 MR. SATINE: I'm sorry, Your Honor. I'm  
5 going to try to wrap it up and I will move quickly.

6 THE COURT: Very well. Thank you.

7 Q (By Mr. Satine) Mr. Bakewell, if we look in  
8 the column that says One-time Payment.

9 A Yes, sir.

10 Q Each and every one of the listings there  
11 references a payment that represents a percentage of  
12 gross sales or net sales or gross profit for a fee per  
13 transaction, right?

14 A Again, because you keep leaving this off, it's  
15 during a single year, and a start-up year. And it's  
16 explicitly called out. That's very important.

17 Q Is the answer to my question yes?

18 A My answer is the answer that I gave to your  
19 question, sir.

20 MR. SATINE: Your Honor, could I get a  
21 yes or no from the witness?

22 THE COURT: You may answer yes or no,  
23 then explain your answer.

24 THE WITNESS: Okay.

25 A Shall I answer your question again?

1           Q     (By Mr. Satine) Yes, with a yes or no, and  
2 then Your Honor said explain it.

3           A     Yes. May I explain?

4           Q     Your Honor said you can.

5           A     The explanation is that each of these one-time  
6 payments are capped. They're capped. They're capped by  
7 the fact that they're only one year. And not only are  
8 they only one year, they're one start-up year. These  
9 are start-up-type businesses.

10                     And, in addition to that, it's relevant to  
11 consider what the gross dollar amount of those licenses  
12 are as indicated in the last column.

13           Q     Mr. Bakewell, each and every one of those  
14 entries in the column that says One-time Payment  
15 represents the extent of use of the patents, right?  
16 They are tied to the extent of use, right?

17           A     I think that conceptually I can agree with  
18 you. I don't think that any of these licenses called  
19 that out specifically. But presumably the payment is in  
20 exchange for value for extent of use.

21           Q     Would you agree that the royalty that should  
22 be paid in this lawsuit, with the assumptions the  
23 patents are valid, enforceable, and infringed, is a  
24 royalty that should be commensurate with Newegg's level  
25 of use of the inventions?

1           A     Oh, that's a consideration, yes, sir.

2           Q     Let's move on to your benchmark analysis,  
3     which was your third theory, right?

4                     MR. SATINE: Let's put up Slide 34.

5           Q     (By Mr. Satine) Now, you have a starting point  
6     of 100 percent there, right?

7           A     That's right.

8           Q     And if we wanted to plug in a number there,  
9     because at the bottom you say you're multiplying  
10    something by the benchmark; you're multiplying whatever  
11    that hundred percent is by the benchmark, right?

12          A     Yes, sir.

13          Q     If we wanted to plug in the number there, what  
14    we'd be looking at is Newegg's total accused sales  
15    during the damages period, right?

16          A     Yes.

17          Q     So if we replaced accused sales with a number,  
18    and we kept your benchmark of 0.0125 percent, what we'd  
19    have up there would look like this I think --  
20    \$4,794,540,093 times .0125 percent, right?

21          A     Yes, sir.

22          Q     That's if we put the numbers in.

23          A     Yes, sir.

24          Q     Now, you told us that you verified your facts  
25    and figures, right?

1           A     Yes, sir.

2           Q     One of the figures and facts that you verified  
3 was the 6.3 percent that we see on that slide, right?

4           A     That's right.

5           Q     Still have your report up there?

6           A     I do.

7           Q     Okay. Why don't you go to Exhibit 5A of your  
8 report. We're going to have to put it up on the screen.

9                     Well, I guess we're not going to have to  
10 put it up on the screen.

11          A     I'll turn to it.

12          Q     Well, we'll turn to it and we'll talk about  
13 it.

14                    See where you have incremental profit at the  
15 bottom of that screen?

16          A     That's right. In this exhibit it's 6.7  
17 percent. Yes, sir.

18          Q     But you checked and verified your facts and  
19 figures, right?

20          A     I did.

21          Q     6.7 percent, 6.3 percent, you were in the  
22 courtroom when Mr. Nawrocki said, on the high side he  
23 would use 6 percent, right?

24          A     And on the low side he would use 1 percent.  
25 That's right.

1 MR. SATINE: Let's look at Slide 8.

2 Q (By Mr. Satine) Do you recall that I asked you  
3 at your deposition whether the Newegg customers who  
4 answered this survey had any other choices they could  
5 pick when answering what they liked about Newegg, or  
6 were those the only choices they were given? Remember  
7 that?

8 A Oh, yes, I remember. And that's correct.

9 Q Those were the only choices they were given,  
10 right?

11 A Yes, sir.

12 Q They didn't have a box they could check which  
13 said they liked the shopping method system. That wasn't  
14 one of the choice, right?

15 A Oh, no, it wasn't.

16 Q Let's take a look at Slide 6, your 21 factors.  
17 There's no source at the bottom of that one, right? So  
18 if we talked about what you put under each one, you said  
19 you had source, hard evidence; no source, no hard  
20 evidence, right?

21 A Oh, no, sir. That's -- I don't think that  
22 that's an accurate thing to say. My sources for these  
23 were analyst reports and writeups by third parties  
24 regarding Newegg.

25 MR. SATINE: If you could just highlight



1 the private label credit card.

2 Q (By Mr. Satine) Of the 28 million transactions  
3 at issue in this lawsuit, how many of them involved a  
4 transaction where a customer used the private label  
5 credit card?

6 A I don't know.

7 Q Another one you have up there is electronic  
8 newsletter.

9 Of the 28 million transactions at issue in  
10 this lawsuit, how many of them involved a transaction  
11 where a customer took advantage of Newegg's electronic  
12 newsletter?

13 A I haven't quantified that.

14 Q What about offline advertising through  
15 publications, billboard, and trade? Were you here when  
16 Mr. Cheng testified about how much offline advertising  
17 Newegg does?

18 A Yes, sir.

19 Q Another one you have up there is rewards  
20 programs, right?

21 Of the 28 million transactions at issue in  
22 this lawsuit how many of them involved a transaction  
23 where a customer used a reward program?

24 A I haven't quantified that, sir.

25 Q Do you know if the newegg.ca website has a

1 rewards program?

2 A I don't know.

3 Q Another fact that you have up there is RSS web  
4 feeds. What are RSS web feeds?

5 A RSS web feeds, my understanding is that those  
6 are feeds that are made either to e-mail accounts or to  
7 the consumer on the screen, based upon real-time  
8 information.

9 Q When you did your research -- you were the one  
10 who selected these 21 items, right?

11 A Yes, sir.

12 Q You did that based upon reviewing Newegg press  
13 releases and articles you found on the internet, right?

14 A That's right.

15 Q When you read something about Newegg's RSS web  
16 feeds, did it say anything about whether or not they  
17 drive sales to the Newegg website?

18 A Oh, no, there was not that explicit statement.

19 Q It's just an assumption you made, right?

20 A It was an observation that I made that that  
21 was said.

22 MR. SATINE: Put up a slide we saw with

23 Mr. Nawrocki, Slide No. 2. Can you get that?

24 Q (By Mr. Satine) You were here in the courtroom  
25 when Mr. Nawrocki went through this slide, right?

1           A     Yes, sir.

2           Q     It says: Upon finding for the claimant, the  
3 Court shall award the claimant damages adequate to  
4 compensate for the infringement, but in no event less  
5 than a reasonable royalty for the use made of the  
6 invention by the infringer.

7                     To the best of your knowledge, that slide  
8 accurately quotes from Title 5, Section 284 of the  
9 United States Code, right?

10          A     That excerpt is verbatim, yes, sir.

11                     MR. SATINE: Pass the witness, Your  
12 Honor.

13                     THE COURT: All right. Thank you.

14                     MR. SAYLES: If it please the Court.

15                     THE COURT: Redirect?

16                     MR. SAYLES: Yes, sir.

17                     REDIRECT EXAMINATION

18 BY MR. SAYLES:

19          Q     Mr. Bakewell, let's start kind of at the end  
20 and work backward.

21                     You were asked some questions about the \$400  
22 license and the fact that it has 2 percent for one year  
23 in that license. Do you recall that?

24          A     Yes, sir, I do.

25          Q     How long was the license for once the \$400 was

1 paid?

2 A Forever.

3 Q And with respect --

4 A Or for the life of the patents.

5 Q With respect to each of these patent licenses,

6 where they were up on the board and there was a

7 percentage of sales in a given year, did that have to be

8 paid year after year?

9 A No, sir, that was a one-time payment.

10 Q For the life of the patents?

11 A Yes, sir, I believe so.

12 Q You were asked about the Odimo license and the

13 85 cents per transaction issue a few minutes ago. Do

14 you remember that?

15 A I do.

16 Q And was that paid for -- how many years was

17 that paid for?

18 A I believe it was paid only once --

19 Q For how long?

20 A -- for that one year.

21 Q For how long?

22 A For the life of the patents.

23 Q You were asked a few questions about

24 Plaintiff's Exhibit 184, which is Defense Exhibit 224.

25 MR. SAYLES: I wonder if we can get that

1 up.

2 Q (By Mr. Sayles) That's the license with INN.

3 Do you recall that license?

4 A I do.

5 MR. SAYLES: All right. Let's see if we  
6 can get it.

7 Q (By Mr. Sayles) And I think the point that  
8 Mr. Satine was making is that this is an Open Market  
9 license that has a running royalty in it as opposed to a  
10 lump sum. Do you recall that?

11 A That was the implication of his questions,  
12 yes.

13 Q All right.

14 If we look at the patents that are covered in  
15 Paragraph G at the bottom of the page -- and I'll blow  
16 that up -- did it involve any of the patents-in-suit in  
17 this case?

18 A No, sir.

19 Q And with respect to -- also what it covered,  
20 are the assigned patents described in Paragraph B.

21 A Yes, sir. That's what was covered under the  
22 license.

23 Q And you've read and studied this?

24 A I have.

25 Q And this was based on a Japanese patent

1 application?

2 A That's correct.

3 Q Was the technology that was involved in this  
4 one license that had a running royalty, in any way  
5 related to the technology that's involved in these  
6 patents?

7 A I've seen no way to make a connection from a  
8 commercial point of view. They seem very different to  
9 me.

10 Q You were asked a number of questions about  
11 TigerDirect and others who have licensed these patents.

12 Do you recall that subject line?

13 A Yes, sir.

14 Q Now, the terms of those licenses have not been  
15 analyzed by you; is that right?

16 A That's right.

17 Q Tell the -- without going into the terms, tell  
18 the Ladies and Gentlemen of the Jury why those terms are  
19 not a part of your analysis.

20 A Well, there's two reasons.

21 MR. SATINE: Your Honor, may we approach?

22 THE COURT: Yes, you may.

23 (Bench conference.)

24 MR. SATINE: During my questioning of  
25 Mr. Nawrocki, I had suggested that he avoid -- that he

1 would not discuss this in this case. Mr. Sayles raised  
2 an objection on the comment. He now is asking the  
3 witness to expound. I thought we had an understanding  
4 of how we were dealing with it.

5 MR. SAYLES: Let me respond to that. I  
6 don't plan to go into the terms, but he brought the fact  
7 up about the licenses. From his standpoint, in terms he  
8 can't consider it because it was settlement of --

9 THE COURT: You don't need to get into  
10 that area. Show what the settlement was, if you want to  
11 go into that.

12 MR. SAYLES: I know, but they mentioned  
13 the existence of them, and they put the big old elephant  
14 in the room.

15 THE COURT: Y'all mentioned the existence  
16 of them from the outset. I thought that was the  
17 agreement, that they could mention that they had  
18 licensed it to them.

19 MR. SAYLES: Well, that was the ruling  
20 that you made, and I think that it's probably right with  
21 respect to the fact that others have licensed the  
22 patents, but the reason the terms aren't considered is a  
23 different question.

24 THE COURT: No. Don't go into any  
25 settlement.

1 MR. SAYLES: All right. All right.

2 MR. SATINE: Thank you.

3 (Bench conference concluded.)

4 Q (By Mr. Sayles) Mr. Bakewell, I want to ask  
5 you about the book of wisdom concept that Mr. Satine  
6 asked you in one of his questions.

7 A Yes, sir.

8 Q Would you tell the Ladies and Gentlemen of the  
9 Jury what that is from the standpoint of someone who  
10 does the type of work that you do?

11 A Yes. Well, the book of wisdom refers to case  
12 law which permits an analyst, such as myself, somebody  
13 who's evaluating the hypothetical negotiation, to  
14 consider data that is subsequent to the hypothetical  
15 negotiation as part of their royalty information.

16 Q And why is it that you don't consider in 2001  
17 the exact information that occurs eight or nine years  
18 later?

19 A Well, the data might be considered, but it  
20 always needs to be considered in context against other  
21 data that is available at the time of the hypothetical  
22 negotiation.

23 And typically, data that is what we call  
24 contemporaneous or close to the time of the hypothetical  
25 negotiation is of more value to the analysis, because it



1 reflects the current state of affairs and information  
2 the parties would have reasonably had access to at the  
3 hypothetical negotiation.

4 Q All right. And Mr. Satine asked you a few  
5 questions about the Newegg Mall. Do you recall that  
6 line of questions?

7 A Yes, sir, I do.

8 Q And are you aware that the Newegg Mall  
9 launched in 2008?

10 A I am.

11 Q Did you consider the Newegg Mall in your  
12 analysis?

13 A I was aware of it, yes, and I considered it;  
14 however, I was also aware that as of 2001, the  
15 hypothetical negotiation date, there were no plans that  
16 I had seen regarding the Newegg Mall.

17 Q All right. And you heard Mr. Nawrocki's  
18 testimony. Did he offer any testimony on damages  
19 based on Newegg -- the Newegg Mall?

20 A No, sir, I don't believe he did.

21 Q You were asked some questions about service  
22 charges and maintenance fees with regard to Transact.

23 Do you remember that?

24 A Yes, sir.

25 Q And would you tell the jury why you did not

1 take those into account?

2 A Well, because there's no financial or economic  
3 basis to do that. There is no certainty that those  
4 revenue streams would be attached. And, in fact, my  
5 understanding of Open Market's business is that quite  
6 often those revenue streams were a challenge to be  
7 attained.

8 On top of that, those revenue streams are --  
9 there -- there's something that's different than being  
10 granted assess to a patent.

11 Q And do the service fees and the maintenance  
12 fees, do they represent profit to whomever owns the  
13 Transact product anyway?

14 A That's right.

15 Q Are there costs associated with providing  
16 those services?

17 A Oh, absolutely.

18 Q Now --

19 A And when you said profit, they represent  
20 revenues, but not necessarily profit.

21 Q All right.

22 A You need to consider the costs that get offset  
23 against those revenue streams.

24 Q And you may have covered this earlier, but did  
25 Mr. Nawrocki use those figures and fees in connection

1 with his calculations?

2 A No, sir. I covered that in the beginning of  
3 my -- my questions that you asked me. And that was one  
4 of the things that Mr. Nawrocki and I agree upon, that  
5 those fees are not relevant to be considered.

6 Q You were asked a number of questions about  
7 some Transact agreements that had higher figures than  
8 the \$344,000.

9 Do you recall that?

10 A Yes, sir.

11 Q And why is it that you cited to the \$344,000  
12 as opposed to the higher figures that Mr. Satine threw  
13 out in his questions to you?

14 A Well, those -- the \$344,000 is the software  
15 license fee, the part that granted access to the  
16 technology.

17 And Mr. Satine actually curtailed me from  
18 answering the question in its entirety, because that  
19 particular example, if I can find it -- just bear with  
20 me a moment, and I'll get to it.

21 That particular example, the \$344,000 is  
22 comprised of a 73,600 base commerce system subscription.  
23 In addition to that, there were other things that were  
24 not subscription fees, such as physical goods module  
25 license, digital goods module license, sales tax module,

1 a Battle Star 4.0 for Transact development license,  
2 Netscape Enterprise Server license, and a whole host of  
3 other things that are unrelated to the patents that  
4 we're discussing here.

5 Q And of course, you're familiar with the fact  
6 that in cases such as this, the parties must exchange  
7 information.

8 A Yes, sir.

9 Q And with respect to the Transact licenses that  
10 you considered, where did they come from?

11 A They came from documents that were produced by  
12 Soverain.

13 Q And did you in any way disregard any of the  
14 licenses that they actually produced?

15 A No, sir, I didn't.

16 Q And with respect to the one license, the one  
17 patent license that you described that Newegg has for a  
18 group of licenses, is that what's called the MPEG  
19 license?

20 A That's right. Mr. Cheng talked about that.  
21 That's a patent -- it's a license to a standard.

22 Q And did you fully consider that and whether it  
23 had any significance here?

24 A I did. It's the license to a standard, which  
25 is very different. It's for MPEG technology, which

1 relates to audio playback.

2           To the extent that it is considered, I think  
3 it would be relevant -- very relevant to know that the  
4 total payments per year under that license were  
5 approximately \$4,000.

6           Q     All right. And you were asked some questions  
7 about the sale of Open Market to -- to Divine.

8           Do you recall that?

9           A     Yes, sir.

10          Q     And I'll mention the figure again, \$70  
11 million. What was that figure?

12          A     The Plaintiffs seemed to like that amount.  
13 That amount was the -- represented the entirety of the  
14 business, all of its assets, employees, software,  
15 customer lists. We heard Ms. Wolanyk talk about how  
16 those were very valuable references, et cetera.

17          Q     All right. And you said that there was no  
18 cash involved in that transaction. Would you explain  
19 what you meant by that?

20          A     It was a stock-for-stock transaction. So when  
21 Mr. Satine, in his question, implied somehow there would  
22 be cash that would be flowing into the doors of Open  
23 Market, I felt that it was misleading.

24                  A stock-for-stock transaction is different  
25 than somebody offering stock on the open marketplace to

1 receive a capital injection for the firm.

2 Q Was the business of Open Market in pretty bad  
3 shape at the time that transaction took place?

4 A Well, I think the evidence is very clear by --  
5 as shown by those charts.

6 MR. SAYLES: And is it possible to pull  
7 up Mr. Ghosh's testimony at Page 66, Line 23 from the  
8 transcript? If it's not readily available, tell me.

9 MS. JOHNSTON: What page?

10 MR. SAYLES: It's Page 66, Line 23.

11 Q (By Mr. Sayles) All right. This was played  
12 for the jury, but I'm going to ask that the words on the  
13 question at Line 23 be pulled up, and then we'll look at  
14 the answer on Page 67, Line 1.

15 Is this what you were relying on when you said  
16 that at the time of the sale, the business was in bad  
17 shape, Mr. Ghosh's testimony?

18 A This is one of the pieces of information that  
19 showed or demonstrated that to be a fact.

20 Q And because we're actually creating a record  
21 here, the question was: What caused Open Market to be  
22 sold to Divine?

23 And Mr. Ghosh's answer was: The business was  
24 in pretty bad shape. The company was losing money and  
25 did not have a huge cash balance, and the public markets

1 were not available to raise additional capital.

2 Is that some of the testimony you're relying  
3 on?

4 A Yes, sir.

5 Q You were asked some questions about whether  
6 Newegg could get up from the bargaining table under a  
7 hypothetical negotiation, and I think you indicated that  
8 they could not.

9 A That's right.

10 Q On the other hand, could Open Market say, I  
11 don't like this, and could they get up and walk in a  
12 hypothetical situation?

13 A No, sir. This -- this negotiation is between  
14 prudent and willing business people.

15 Q All right. And then, finally, you mentioned  
16 that there were some single-item transactions. Do you  
17 recall that in the very early part of your  
18 cross-examination?

19 A Yes, sir, I do.

20 Q And what do you mean by single-item  
21 transactions?

22 A Well, my understanding is that that's when a  
23 user may just put a single item into a shopping cart and  
24 check out.

25 Q And did you see facts and data on how often

1 that occurs?

2 A It occurs about two-thirds of the time.

3 MR. SAYLES: I'll pass the witness.

4 Thank you.

5 THE COURT: All right. Anything further?

6 MR. SATINE: Very briefly, Your Honor.

7 THE COURT: All right.

8 RECROSS-EXAMINATION

9 BY MR. SATINE:

10 Q Mr. Bakewell, the MPEG license that Newegg  
11 entered into is for a pool of patent licenses, correct?

12 A Yes, sir.

13 Q So a number of companies that have patent  
14 licenses in that technology have pooled them together,  
15 and Newegg has taken a patent license from that whole  
16 group of companies for that one technology, right?

17 A That's correct, for that standard, that  
18 technical standard.

19 Q You said you agree with Mr. Nawrocki that  
20 Transact maintenance figures should not be considered.

21 A Yes, sir.

22 Q Mr. Nawrocki doesn't consider the cost of a  
23 Transact software license as an alternative to a patent  
24 license, does he?

25 A That's true.



1 MR. SATINE: Nothing further, Your Honor.

2 MR. SAYLES: Nothing further, Your Honor.

3 THE COURT: Thank you. You may step  
4 down.

5 All right. Who will be your next  
6 witness, Mr. Sayles?

7 MR. SAYLES: If it please the Court, at  
8 this time, the Defense would offer Defendant's Exhibit  
9 516, which is the parties' stipulations in this case,  
10 and I would request that the Court tell the jury what  
11 the stipulations are or permit me to do so.

12 THE COURT: All right. Ladies and  
13 Gentlemen of the Jury, a stipulation is a fact that has  
14 been agreed to between the Plaintiff and the Defendant  
15 prior to trial. And they will reduce those to a written  
16 stipulation and both of them sign it and then it's going  
17 to be filed with the Court.

18 And the stipulations that they've agreed  
19 to are facts that are not controverted and not facts for  
20 you to find, and they are facts for which you will be  
21 bound by their stipulation.

22 So that's what it is.

23 MR. SAYLES: All right. So Defense  
24 Exhibit 516 will be admitted?

25 THE COURT: All right. Mr. Adamo?

1 MR. ADAMO: Do you want us to sign them,  
2 Your Honor?

3 THE COURT: I'm sorry?

4 MR. ADAMO: Do you want us to sign them,  
5 Your Honor?

6 MR. SAYLES: No. I -- no, you don't need  
7 to sign them. I mean, they've been signed. I'm --

8 THE COURT: Well, I said signed. I  
9 thought y'all had signed them.

10 MR. SAYLES: We did. Oh, we did in the  
11 pretrial order, yes, Your Honor.

12 THE COURT: Okay.

13 MR. SAYLES: We did do that.

14 THE COURT: Okay.

15 MR. SAYLES: And we've reduced them to an  
16 exhibit.

17 THE COURT: And both sides agree to  
18 those, right?

19 MR. ADAMO: Yes. I just wondered if you  
20 wanted another signature.

21 THE COURT: No. That's all right.

22 All right. Any objection to it?

23 MR. ADAMO: No, sir.

24 THE COURT: All right. Be admitted.

25 MR. SAYLES: All right.

1 THE COURT: All right. Who will be your  
2 next witness?

3 MR. SAYLES: Your Honor, at this time,  
4 the Defense rests its case.

5 THE COURT: All right. Very well.  
6 Plaintiff have rebuttal testimony?

7 MR. ADAMO: We do, and Plaintiff also has  
8 a Rule 50 motion. How would you like to handle that,  
9 Your Honor?

10 THE COURT: When would you like to make  
11 it?

12 MR. ADAMO: Right here, sir.

13 THE COURT: Okay.

14 MR. ADAMO: I don't -- I don't want to  
15 take the Court's time and certainly not the jury's time  
16 to suggest arguing it at this point, but...

17 THE COURT: All right. Just hand it up,  
18 and it will be noted as being filed.

19 MR. ADAMO: And may I file it  
20 electronically as well, Your Honor?

21 THE COURT: Yes, you may.

22 MR. ADAMO: Thank you, sir.

23 THE COURT: In fact, file it  
24 electronically, and we won't file it in the papers.

25 MR. ADAMO: Yes, sir.

1 THE COURT: All right. Who will be your  
2 first witness?

3 MR. GIANNETTI: Your Honor, may it please  
4 the Court, we call Professor Michael Shamos.

5 THE COURT: Professor Shamos.

6 MR. GIANNETTI: I believe, Your Honor,  
7 he's already been sworn.

8 THE COURT: All right. Very well.

9 Now, I note that the parties -- it's  
10 4:10. The parties indicated yesterday -- Plaintiff  
11 estimated an hour, and Defendant estimated 30 minutes  
12 for cross-examination.

13 So if that proves true, we will be going  
14 until approximately 5:40 this evening. Do any of the  
15 jury members need to make any phone calls or anything?

16 Okay. All right. You may proceed.

17 MICHAEL SHAMOS, PLAINTIFF'S WITNESS, PREVIOUSLY SWORN

18 DIRECT EXAMINATION

19 BY MR. GIANNETTI:

20 Q Professor Shamos, we're coming down the  
21 homestretch.

22 Would you please introduce yourself to the  
23 jury and tell them who you are, where you're from, and  
24 what your occupation is?

25 A Yes. My name is Michael Shamos, S-H-A-M-O-S.

1 I live in Pittsburgh, Pennsylvania, and I'm a faculty  
2 member at Carnegie Mellon University in Pittsburgh.

3 Q Can you tell the jury something about yourself  
4 in connection with -- tell them about your experience in  
5 connection with computers?

6 A Oh.

7 Q Just summarize it for us.

8 A Yeah.

9 I was born in New York in 1947 to an  
10 educational family. My father was the chairman of the  
11 Physics Department at New York University. He  
12 eventually became president of the New York Academy of  
13 Sciences and the National Science Teachers Association.  
14 So I was always around science and scientists.

15 When I was in high school, I took a city-wide  
16 examination in New York City for high school students to  
17 be allowed to attend Columbia University on Saturdays,  
18 and I entered that Columbia science honors program, and  
19 that was my first exposure to computers, was in 1962.  
20 So 48 years ago.

21 And that got me fascinated with them for the  
22 rest of my life.

23 And when I went to college, I wanted to major  
24 in computers, but the field didn't exist at that time in  
25 universities.

1               So I went to Princeton, like Mr. Tittel, and I  
2     couldn't major in computers, so I majored in physics;  
3     but I spent most of my time in the computer center.

4               And upon graduation, I got the dream job at  
5     IBM. That's what all the computer guys wanted to do.  
6     And I became a programmer for IBM Corporation from 1968  
7     till 1970.

8               During that time, I attended Vassar College,  
9     which was physically right near where IBM was. I met my  
10    wife there, and we've been together 42 years.

11              I got a master's degree in physics from Vassar  
12    College, but I was still a programmer at IBM.

13              That was during Vietnam wartime. I had a very  
14    low draft lottery number, so I had to go. And I served  
15    in the United States Public Health Service from 1970 to  
16    1972 as a commissioned officer.

17              I was stationed at the National Institutes of  
18    Health in Bethesda, Maryland, and I worked for the  
19    National Cancer Institute. I was response -- my title  
20    was supervisory programmer. I was responsible for  
21    running a very large data processing center that  
22    processed cancer chemotherapy data.

23              When my service ended in 1972, finally, there  
24    was such a thing as a field of computer science. Yale  
25    University had just started a graduate program, and I

1 applied and was admitted to Yale, and I spent three  
2 years at Yale in pursuit of a Ph.D.

3           Upon graduation, then in 19 -- well, when I  
4 left Yale in 1975, I was hired as an assistant professor  
5 at Carnegie Mellon University in Pittsburgh, which at  
6 the time was the number-one ranked graduate school in  
7 computer science in the country, and today is the  
8 number-one ranked graduate school of computer science.

9           One of my responsibilities at CMU was to  
10 organize and staff the introductory program courses. I  
11 was always referred to as the introductory programming  
12 czar. And I did that, and I taught introductory  
13 programming, as well as -- as well as graduate courses.

14           And I was with -- I've been continuously  
15 associated with Carnegie Mellon University since 1975.

16           I took -- I changed my status from full-time  
17 to adjunct for quite a period of time, so I could pursue  
18 some other things, one of which was I ran -- started and  
19 ran a couple of software companies in Pittsburgh,  
20 Pennsylvania, based on technology that had been  
21 developed at the university.

22           I also attended law school after I got my  
23 Ph.D. from Yale. I practiced as a lawyer also in  
24 Pittsburgh, and I became a patent attorney, actually.

25           One of my specialties is electronic voting.

1 I've been an examiner -- an official examiner of  
2 electronic voting systems for Pennsylvania since the  
3 year 1980, and I performed that function for the  
4 Attorney General of Texas for 13 years, from 1987 until  
5 the year -- until the year 2000.

6 I returned to Carnegie Mellon full-time in  
7 1998 to start what they called at the time the Institute  
8 for Electronic Commerce.

9 This was a time when the internet boom was in  
10 full swing, and the university realized that it wasn't  
11 really producing any graduates who were qualified to  
12 work in E-commerce businesses. The business students  
13 didn't know enough technology, and the computer science  
14 students didn't know enough business.

15 So they set up a program that I was  
16 co-director of. I was the -- it was a joint venture  
17 between our business school and the school of computer  
18 science. I was the co-director from the computer  
19 science side, and my responsibility was to design and  
20 staff the technology side of that program.

21 Our deal with the business school ended in  
22 2004, and the school of computer science took over the  
23 entire thing, and now I am the sole director of graduate  
24 programs in electronic business at Carnegie Mellon  
25 University.



1           Q     Is there a connection between your work at  
2 Carnegie Mellon and the subject matter of these patents?

3           A     Yes. These patents are all about electronic  
4 commerce.

5           Q     What's your experience with the internet?

6           A     Well, I was first exposed to the internet in  
7 1975 when I came to Carnegie Mellon University. I  
8 actually probably was exposed at Yale, but certainly in  
9 1975.

10                     At that time, the internet was called the  
11 ARPANET. It was financed by the Department of Defense  
12 Advanced Research Projects Agency. That's what the ARPA  
13 is.

14                     And at the time, it was a consortium of  
15 military laboratories, the Pentagon, and a number of  
16 universities that had strong computer science  
17 departments. Carnegie Mellon University was one of the  
18 original nodes on that network.

19                     And so I used the internet starting in 19 --  
20 in 1975. At that time, it was largely for electronic  
21 mail and bulletin boards. And as we know, the internet  
22 has evolved into a great deal more than that.

23                     The -- with respect to my -- my personal  
24 involvement, when I was a patent attorney in Pittsburgh,  
25 I represented the inventor of the first internet search

1 engine. His name was Michael Mauldin, and he invented  
2 something called Lycos, which was a predecessor of  
3 Google and Alta Vista and the other search engines.

4 And at the time, I was actually considering --  
5 or being considered for a job with Lycos, Inc. And so I  
6 was forced to study internet protocols for that job  
7 interview.

8 Then, of course, when I came back to CMU and  
9 started teaching electronic commerce, I actually taught  
10 about internet protocols.

11 Q CMU is Carnegie Mellon University?

12 A I'm sorry. Carnegie Mellon University.

13 THE COURT: All right. Counsel, I think  
14 we're going to take a short break here.

15 Ladies and Gentlemen of the Jury, we're  
16 going to -- obviously, this witness is going to take  
17 probably an hour, hour-and-a-half. We've been going  
18 almost two hours.

19 So we're probably going to be pushing  
20 6:00 o'clock -- I just want to tell you -- before we get  
21 through. But rather than sit here, I think it would be  
22 good for us just to take a short break and then come  
23 back, and we'll wrap it up. Okay?

24 So we'll take a break until 4:35; 15  
25 minutes.

1 COURT SECURITY OFFICER: All rise.

2 (Jury out.)

3 THE COURT: Please be seated.

4 All right, counsel. I just want to  
5 caution you. I think the jury is very, very tired. I  
6 think the quicker you can get in on both sides on direct  
7 and cross and make your points and get out, I just sense  
8 they're very, very tired.

9 So I want to just encourage you to -- I  
10 don't want you to short circuit what you need to put on,  
11 but we just went through, you know, 10 minutes of  
12 qualifications.

13 That's not, Professor, to demean your  
14 qualifications; but the jury has been sitting here all  
15 day, eight hours a day since Monday. And I guess you  
16 have, too, haven't you?

17 THE WITNESS: I have, Your Honor.

18 THE COURT: Well, you ought to be tired.  
19 What's wrong with you?

20 [Laughter]

21 THE WITNESS: I am tired.

22 THE COURT: All right. We'll be in  
23 recess until 35 after.

24 COURT SECURITY OFFICER: All rise.

25 (Recess.)

1 (Jury in.)

2 THE COURT: All right. Please be seated.

3 Another reason we have to take these  
4 breaks is our poor Court Reporter here. You think it's  
5 hard sitting here listening all day. If you do this all  
6 day long, you need to stretch your hands every now and  
7 then.

8 So then we appreciate you, Ms. Judy.

9 MR. GIANNETTI: May I continue?

10 THE COURT: Yes.

11 Q (By Mr. Giannetti) Professor Shamos, we have  
12 retained you as an expert in this case. Can you explain  
13 what your assignment has been?

14 A Yes. It was really quite limited. I was  
15 asked to look at a report that was issued by Mr. Tittel  
16 on the issue of invalidity and to review and comment on  
17 that report and the testimony on invalidity in this  
18 case.

19 Q And were you present during Mr. Tittel's  
20 testimony?

21 A Yes.

22 Q Have you put together a presentation, a set of  
23 slides summarizing what you've done and what opinions  
24 you formed?

25 A Yes, I have.

1 MR. GIANNETTI: Can we start that?

2 Q (By Mr. Giannetti) I'm going to let you  
3 control the slides, okay?

4 A Okay.

5 Q This slide -- does the first slide that you  
6 put up summarize the things that you've done in  
7 connection with forming your opinions in this case?

8 A Yes.

9 Q Can you just run through quickly what you've  
10 done?

11 A Very quickly.

12 Well, I read the patents, of course, and the  
13 proceedings in the Patent Office, which were previously  
14 referred to as the file histories.

15 I applied the Court's claim constructions, and  
16 also there were some agreed-upon constructions between  
17 the parties that I was bound by.

18 I reviewed not only Mr. Tittel's report but  
19 also the materials that he reviewed in preparing his  
20 report.

21 I've listened to all of the courtroom  
22 testimony. I think I may have missed ten minutes of  
23 testimony on nontechnical issues, including the  
24 testimony of Mr. Trevor.

25 I analyzed Mr. Tittel's arguments, and I

1 considered whether his arguments were correct. And my  
2 opinion is that he hasn't shown any of the asserted  
3 claims to be invalid or even argued convincingly in that  
4 direction.

5 Q Does Sovereign have to prove that its patents  
6 are valid, to your understanding?

7 A My understanding is it doesn't, no.

8 Q Is it up to Newegg to prove that the patents  
9 are invalid?

10 A By clear and convincing evidence, yes.

11 Q Okay. Let's go to the next slide, if you  
12 will.

13 A Yes. This deals with anticipation. And I  
14 believe that Mr. Tittel hasn't shown any of the asserted  
15 claims to be anticipated, which means he didn't show  
16 that any single prior art reference disclosed all the  
17 limitations of any particular asserted claim.

18 Q Now, what about obviousness? We've heard that  
19 word a number of times in this case. Has -- has  
20 Mr. Tittel shown the claims are obvious?

21 A Well, he didn't use the word obvious, but the  
22 demonstrations that he made seemed to be veering in that  
23 direction. And to the extent that he put various  
24 references together to try to show that the claims were  
25 obvious, I don't think he did that properly, for several

1 reasons.

2 I don't think these are in any particular  
3 order, but he used what's referred to as hindsight. And  
4 the idea of hindsight is that now here we are in 2010,  
5 we're looking at a patent claim, and someone would like  
6 to show that that was obvious back in 1994.

7 So they look at the elements of the claim, and  
8 they go around and they hunt around for prior art that  
9 seems to disclose this element or that element of the  
10 claim.

11 That's hindsight because it uses something  
12 which wasn't invented at the time, back in 1994,  
13 something that is now invented, as the guidepost for  
14 exactly how you go and find references. And he did  
15 that. And that's not -- that's not a proper analysis  
16 for showing obviousness.

17 Q In his analysis that Mr. Tittel testified  
18 about, CompuServe and the CompuServe Electronic Mall, do  
19 you recall that?

20 A Yes.

21 Q Do you have slides on the -- on the electronic  
22 mall --

23 A Yes.

24 Q -- of CompuServe?

25 Would you go to those, please?

1           A     Yes.

2           Q     This slide shows the basic operation of the  
3 CompuServe Mall?

4           A     Correct. This is consistent with Mr. Trevor's  
5 testimony.

6           Q     And it shows the CompuServe mainframe computer  
7 known as the server and the client communicating through  
8 a telephone line?

9           A     That's right. I haven't shown the telephone  
10 or the dial-up, but I've shown a client terminal, which  
11 is typically what the person at home would use, and the  
12 mainframe. And that -- this horizontal line here -- I  
13 will try to put this in here -- that is a telephone  
14 line.

15          Q     Okay. And is the same telephone line used  
16 during the entire transaction with CompuServe?

17          A     Yes, the user dials up, gets access to  
18 something on CompuServe, does some things, and then  
19 eventually hangs up. And during that entire time, the  
20 telephone connection has been maintained.

21          Q     It's like calling up a friend on the  
22 telephone?

23          A     Yes. It's a conversation, and it starts and  
24 it ends at some point.

25          Q     Now, was CompuServe a system that was -- was



1 closed and was opened only to people who were members?

2 A I think Mr. Trevor testified that the people  
3 who paid money to access CompuServe were referred to as  
4 members, and you couldn't access CompuServe unless you  
5 were a member.

6 Q Do you have a slide on that?

7 A Yes.

8 Q Okay. That's your -- that slide illustrates  
9 that concept?

10 A I think it shows that members are able to  
11 connect to CompuServe; and the nonmember suffering with  
12 a big red X there, he's unable to get access to  
13 CompuServe.

14 Q Now, was there -- as a result of the  
15 communications going over a telephone line, was there --  
16 does CompuServe know what activities each user was  
17 doing?

18 A Yes. During this telephone conversation,  
19 there is a one-to-one connection between the user's  
20 terminal and the CompuServe computer. So, anything that  
21 CompuServe sent you, it knew what it had sent you. And  
22 anything that you sent back, by way of characters over  
23 the telephone line, it knew from whom they were coming.

24 Q Go to the next slide, I think that's shown.

25 A Yes. So, for example, here I think there was

1 testimony about this -- this particular screen in which  
2 you were supposed to press O on your keyboard if you  
3 would like the purchase the item that's currently being  
4 displayed.

5           So what's being displayed here is the book  
6 Moby Dick, and if you press O to purchase, then what  
7 happens is that message, and every message that you send  
8 to CompuServe, comes in over that telephone line.

9           And so here, if you actually want to purchase  
10 the book and you hit the O key, then the letter O is  
11 sent to the CompuServe mainframe. I think Mr. Trevor  
12 testified it was actually the letter O followed by the  
13 carriage return character. Those two characters would  
14 be sent to the CompuServe mainframe, and it knew that  
15 you wanted to order Moby Dick, not because you said that  
16 in the message, but because it had previously sent you a  
17 screen that said Moby Dick.

18       Q     Some of the claims in this case involve  
19 product identifiers; is that correct?

20       A     That's right.

21       Q     And does that relate to this discussion that  
22 we're having about CompuServe, the need or the lack of  
23 need for product identifiers?

24       A     Yes. I think the claims refer to shopping  
25 cart messages which are compelled to include product

1 identifiers.

2 Q Were there such product identifiers in  
3 CompuServe?

4 A No. Mr. Trevor testified that it didn't need  
5 them. And that's consistent with my understanding. It  
6 didn't need them. If it needed them, then this would  
7 never work because O does not identify Moby Dick.

8 Q Did Mr. Tittel refer to the product  
9 identifiers in his testimony?

10 A No. He kind of skipped over those claim  
11 limitations that had product identifiers in them.

12 Q But Mr. Trevor said they weren't there.

13 A That's right.

14 Q Let's go to the next slide.

15 Okay. This is a slide on product identifiers?

16 A Yes. This is another slide on product  
17 identifiers for the later system that had this WINCIM  
18 software that would turn a PC into the equivalent of a  
19 client terminal.

20 And the interface there was slightly  
21 different. You didn't hit O. You had to hit -- hit  
22 this order key, which is where the little arrow on the  
23 left-hand picture is shown.

24 And when you hit the order key, some message  
25 went across, I think the exact format of it was not

1 testified to. But it didn't have a product identifier;  
2 it was just an indication that the order key had been --  
3 had been hit at that time.

4 Q Was this point overlooked also in Mr. Tittel's  
5 the testimony?

6 A He never talked about product identifiers.

7 Q So this is something that was missing from the  
8 CompuServe Mall, the CompuServe Electronic Mall, the  
9 product identifiers that are included in some of the  
10 claims?

11 A That's correct. There was no need for product  
12 identifiers, and it didn't have them.

13 Q So let's skip ahead to -- I think you have a  
14 slide on the -- on one of the CompuServe references that  
15 Mr. Tittel was testifying about.

16 Does this relate to the Bowen and Peyton  
17 reference that Mr. Tittel and Mr. Trevor testified  
18 about?

19 A Well, that's what this -- this screen is  
20 about -- I mean, the title -- the title of the slide, is  
21 that he improperly combines four different CompuServe  
22 references. So he was trying to show that CompuServe  
23 anticipated some of these claims.

24 And CompuServe, as a system, existed in  
25 various different versions at various different times.

1 Mr. Trevor testified to that. And these books that  
2 Mr. Tittel relied on were also published at different  
3 times, and they describe different versions of the  
4 system.

5 Yet when he was trying to show that CompuServe  
6 matched up, I think in his words, matched up with the  
7 claims, he would pick and choose various quotations from  
8 these different books that were written in different  
9 years, and obviously, as I'll show, don't even describe  
10 the same version of CompuServe.

11 Q The Bowen and Peyton 1989 book represented a  
12 very early version of the electronic mall where menus  
13 were used; is that right?

14 A Yes. This is the pre-WINCIM version, what I  
15 think what was referred to as the ASCII version. ASCII,  
16 all that means is you only have the ability to send  
17 characters. You can't send graphics, for example.

18 Q And what version of CompuServe Mall did the  
19 later books, the Campbell book and Ellsworth book,  
20 describe?

21 A Campbell and Ellsworth clearly describe the  
22 versions of CompuServe with WINCIM because you can see  
23 the illustrations in the books have -- they show the  
24 WINCIM interface.

25 Q And in his analysis, did Mr. Tittel combine

1 those two versions?

2       A     Well, I think the implication is he combined  
3 them, but what he really did was to pick and choose from  
4 the various ones. When he wanted to show a particular  
5 claim element was in CompuServe, he seemed to pick the  
6 book that was convenient for that purpose.

7       Q     And why, in your opinion, is that wrong?

8       A     It's not actually my opinion. It's -- the  
9 nature of anticipation is you have to be able to find  
10 all of the claim elements in the same single reference.  
11 And those four books are four different references.

12       Q     Can go to the next slide, please.

13       A     Yes.

14       Q     And what does this slide relate to?

15       A     Well, there was a video that was presented by  
16 Mr. Trevor that showed this -- this version that had the  
17 order button. And, again, that video is like a fourth  
18 reference. The video is not any one of the three books.  
19 And there's no -- there was no testimony as to the --  
20 the version of CompuServe that that represented, the  
21 date on which that version of CompuServe existed, nor  
22 any of that.

23       Q     Now, in Mr. Tittel's presentation, I think it  
24 was clear that the -- that CompuServe was not on the  
25 worldwide web in the 1994 time period; is that true?

1           A     He definitely testified that it was not on the  
2 worldwide web.

3           Q     Okay.  And -- and do you -- do you have an  
4 opinion as to what it would have taken to take  
5 CompuServe and move it to the internet in that time  
6 period, to the worldwide web?

7           A     Yes.  The natural thing might have been to  
8 say, well, there's this internet that is coming along;  
9 it seems to be very important.  Let's put our  
10 system on -- on the internet.

11                     The problem is that the architecture of the  
12 CompuServe system didn't permit that to be done readily  
13 because for these little O characters that are coming  
14 that say order, order, order.

15                     On the internet, because all of the -- the  
16 communications from all the different users and these  
17 client terminals over here around the edge, all of  
18 these, those are different users, and they may be all  
19 over the world.  And all of them are sending Os along  
20 this line.  And the CompuServe server is not able to  
21 keep straight whose O is which.  It doesn't know --  
22 because of the stateless nature of the internet, it  
23 didn't know what the last thing it was that it sent to a  
24 particular client terminal.  So when the O comes back,  
25 it wouldn't know what that particular person wanted to

1 order.

2 Now, of course, ultimately this problem was  
3 solved. But it wasn't a simple matter of let's just  
4 take all of our existing networking and let's replace it  
5 with the internet. If they did that, it just wouldn't  
6 work.

7 Q Now, there was some discussion about TELNET in  
8 both Trevor's testimony and Tittel's.

9 A Yes.

10 Q And they said that in 1994 CompuServe was  
11 available through TELNET.

12 A Yes.

13 Q Is that the same thing as the worldwide web?

14 A No. In fact, I can probably use this drawing  
15 to explain exactly what TELNET is.

16 TELNET was an extremely early ARPANET  
17 protocol. It existed in 1975. If you were a node on  
18 the network, and you wanted to establish a kind of  
19 telephone connection between yourself and another node  
20 on the network, you could do that by saying, TELNET, and  
21 then you would give the name of the place you wanted to  
22 connect to.

23 So if I happened to be at Yale, I could just  
24 go to my terminal and type TELNET CMU, and that would  
25 connect me to Carnegie Mellon University. And it was as



1 if my terminal happened to be sitting in the computer  
2 room at Carnegie Mellon University. It was effectively  
3 my transporting myself there.

4           So even that went over the internet, what  
5 happened is -- let's suppose that this -- this node over  
6 here is Yale, and this node down here is Carnegie  
7 Mellon. When you ask for a TELNET connection, what  
8 happened is these various of these lines -- I'm not sure  
9 I'm getting all these arrows -- would be dedicated to a  
10 connection between the two universities. And it would  
11 be effectively like a telephone line even though it  
12 wasn't over the telephone network.

13       Q     And that's not what happens in the worldwide  
14 web, is it?

15       A     No. The worldwide web doesn't have  
16 dedicated -- it's referred to as connectionless. It  
17 doesn't have dedicated connections of that kind.

18       Q     Can we go to the next slide, please?

19       A     Well, this is just an explanation of why it  
20 wouldn't have been obvious how to move CompuServe to the  
21 web. If I just took all the CompuServe software and I  
22 replaced the interface, the network interface to an  
23 internet interface, the system would completely  
24 collapse, and you wouldn't be able to order a single  
25 thing on it.

1           Q     Is the internet sometimes referred to as an  
2 open system?

3           A     Yes.

4           Q     In what sense?

5           A     Well, it's open -- a good example is I just  
6 passed a restaurant a block or two away from here and  
7 they advertised free internet. And so what that would  
8 mean is I could just walk into that cafe, sit down, open  
9 up my laptop, and I'm connected to the internet. No  
10 credentials required, no nothing.

11          Q     And that's in contrast to CompuServe where you  
12 have to be a member?

13          A     Yes.

14          Q     Would you go to the next slide, please?

15          A     Yes.

16          Q     This -- this slide refers to some specific  
17 claims?

18          A     Yes. This is dealing with what have come to  
19 be called the sales system claims, as opposed to the  
20 session -- the session identifier claims or the  
21 hypertext claims.

22                   This is Claims 35 and 51 of the '314 and Claim  
23 17 of the '492.

24          Q     Okay. Do these claims all require that  
25 product identifier that you talked about earlier that's

1 not present in CompuServe?

2 A Yes.

3 Q Do you have a slide on that?

4 A Yes.

5 Q Okay.

6 A So this just repeats that CompuServe didn't  
7 need product identifiers as Mr. Trevor testified to.

8 And all the sales system claims require the  
9 buyer computer -- and here's a quote -- to send,  
10 dot-dot-dot, shopping cart messages, dot-dot-dot, each  
11 of which comprises a product identifier. And down here  
12 is an example of what such a message might look like in  
13 a system that conformed to that claim.

14 So instead of saying O, which doesn't indicate  
15 any kind of product at all, if you say, add item product  
16 ID: 38918491, that's very specific. We know exactly  
17 what product you want to add regardless of where this  
18 message came from.

19 Q So Mr. Trevor said there's really no need for  
20 a product identifier?

21 A There's no need for that, and it didn't have  
22 them.

23 Q Let's go to the next slide, please.

24 A Yes.

25 Q What does this show?

1           A     Well --

2           Q     Is this further on that point?

3           A     This is further explanation of why that  
4 particular claim limitation isn't met. There's no  
5 shopping cart message with a product identifier. The  
6 only thing the client terminal sent was an order  
7 command. There was no product identifier, and there was  
8 no need to have a product identifier.

9           Q     Now, in the CompuServe slides that we saw that  
10 Mr. Trevor put up there, there was a menu, and a  
11 selection was made from a menu. Is that a product  
12 identifier?

13          A     No.

14          Q     Why not?

15          A     Well, for several reasons. First of all,  
16 Mr. Trevor testified that when you move your -- your  
17 cursor down on the screen, and as you move it down that  
18 green highlight bar shows up next to a particular  
19 product.

20                If you then say select, Mr. Trevor testified  
21 that that's not an indication that you want to order the  
22 thing; that's an indication that you want a product  
23 description. And that's when the Russian cross pendant  
24 text came up and pictures of the Russian cross pendant.

25                And it's after that that you hit the order

1 button. And, again, the only thing that goes is an O,  
2 or the equivalent of an O.

3 Q So at the point that you hit that order  
4 button, the product's already been identified?

5 A Yes. Again, CompuServe didn't need to know  
6 because, when you asked for select, it knew what product  
7 you were interested in. And if you then later hit  
8 order, it knew that was the one that you were -- that  
9 you wanted to buy.

10 Q Could you skip ahead a couple of slides to the  
11 first slide on database issue?

12 A Yes.

13 Q Okay. Now, one of the things that we've been  
14 discussing, the issues we've been discussing in these  
15 patent claims, is the shopping cart database.

16 A Yes.

17 Q You see that?

18 And in Mr. Tittel's testimony he identified  
19 the shopping cart database in the CompuServe Electronic  
20 Mall as the shopping cart -- excuse me, the personal  
21 holding file that was referred to in one of the books as  
22 the shopping cart, and the file that's related to that  
23 as shopping cart database.

24 A Yes.

25 Q Have you put the Court's construction of the

1 term shopping cart database on this slide?

2 A That's right.

3 Q Okay. And how is that relevant to this  
4 discussion?

5 A Well, it's relevant to this notion of exactly  
6 what the personal holding file was. And I knew that  
7 there was a personal -- something called a personal  
8 holding file because it's described in the CompuServe  
9 books. But I didn't actually know until I heard  
10 Mr. Trevor's testimony as to exactly what was meant by  
11 the personal holding file. And it's different from what  
12 I thought it was.

13 Q And what was your recollection of his  
14 testimony?

15 A Oh, he testified that it was information held  
16 in main memory of the computer. It was never even  
17 written to a disk file.

18 Q So do you disagree with Mr. Tittel's testimony  
19 that there was a database in -- in the CompuServe  
20 Electronic Mall that handled the products that are  
21 ordered?

22 A I don't know whether there was a database, and  
23 I don't think Mr. Tittel knows whether there was a  
24 database or not. It's his obligation to show that there  
25 was one, and he didn't.

1           Q     How does Mr. Trevor's testimony bear on this?

2           A     Well, because if all these -- these pieces of  
3 information are being held in main memory of the  
4 computer, that's not a database.

5           Q     Let's take a look at your next slide.

6 Mr. Tittel was suggesting, I believe, that a person  
7 looking at these books, the three books that we've been  
8 testifying, or you've been testifying about, that that  
9 person looking at those books would say that there's a  
10 database, and they would actually know how to build one.

11                   Do you agree with that?

12          A     Okay. Well, I don't think it's necessarily  
13 true that there had to be a database there. I think  
14 it's possible there might have been. It might have been  
15 a reasonable design choice, but it certainly wasn't  
16 required.

17                   If somebody looked at those books and said,  
18 well, I'd like to build this system and I'd like it to  
19 have a database, I don't think they could sit down and  
20 do that in a straightforward fashion. They might  
21 eventually come up with it after -- after a lot of work.  
22 They wouldn't be directed by that to put a database in.

23          Q     Do you think that these three books inherently  
24 disclose a database?

25          A     Well, inherently has a special meaning with

1    respect -- with respect to patents.

2           Q     Would you say that they necessarily --

3           A     No.

4           Q     -- disclose a database?

5           A     They definitely don't necessarily disclose a  
6    database because there are ways of implementing the  
7    system that doesn't require a database.

8           Q     What would be an example?

9           A     Well, an example would be that, after you've  
10   made your selection of products, instead of actually  
11   storing it in a database, it sends it off to a  
12   fulfillment house, which would then fill your order and  
13   send it to you without ever recording it in a database.  
14   That's one way.

15          Q     Okay. And that would be an alternative to a  
16   database?

17          A     Yeah.

18          Q     Let's go to the next slide, if you will.

19          A     Yes. This is just a list of the elements that  
20   Mr. Tittel did not show were present in Claims 35, 51,  
21   and 17.

22          Q     The X that you put on this slide indicates  
23   that you did not believe that there was sufficient  
24   evidence, or that Mr. Tittel had provided evidence --

25          A     Okay.



1 Q -- of those being present?

2 A With respect to the shopping cart database, I  
3 don't agree with him.

4 With respect to the product identifier, he  
5 didn't even mention it at all.

6 Q And those are elements of all of the claims  
7 that you've mentioned on this slide of '314, Claim 35  
8 and 51; and '492, Claim 17?

9 A That's right. And they're not present even if  
10 you combine somehow CompuServe with the internet. It's  
11 not just CompuServe alone; it's CompuServe plus the  
12 internet does not disclose these things.

13 Q Okay. Let's go to the next slide, if you  
14 will.

15 Okay. Now, we're now talking about '492  
16 patent Claim 17. This is another claim involving the  
17 shopping cart; is that right?

18 A Yes. This just has some additional claim  
19 limitations.

20 Q Okay. And what would those be?

21 A Well, they are listed down there. At least  
22 one of the shopping cart messages comprises, includes, a  
23 universal resource locator. He never showed that. And  
24 also the payment message comprising a universal resource  
25 locator. He never showed that either.

1           I think what he said was that basically URLs  
2 are common on the internet. But that doesn't say that  
3 you have to have a shopping cart message with one or  
4 that you have to have a payment message with one.

5           Q     You've indicated the absence of those things  
6 in CompuServe with the Xs?

7           A     Well, they are certainly not in CompuServe.  
8 And the question is: Would they be in CompuServe plus  
9 the internet? The problem is there was no shopping cart  
10 message anyway in CompuServe plus the internet. So it  
11 wouldn't have a URL if it didn't exist.

12          Q     Okay. Let's go to the -- that completes your  
13 analysis on the sales system claims, the shopping cart  
14 claims?

15          A     Yes.

16          Q     So let's now turn to the claims that are  
17 involved in the hypertext statements. And those are 41  
18 and 61 of the '492.

19                What's your conclusion on that?

20          A     Well --

21          Q     And whether those were present in the  
22 CompuServe Mall.

23          A     I think the content of most of those claims is  
24 not disclosed by the references that -- that Mr. Tittel  
25 discussed. I think the way he handled it was he put a

1 claim limitation up on the screen, and then flashed some  
2 kind of quotation from some reference next to it, and  
3 then quickly put a checkmark next to the element showing  
4 that it -- he believed it was present. But if you  
5 actually read the quotations that he put up there, they  
6 don't show that.

7           So, for example, in -- in CompuServe, the way  
8 in which you checked the status of an order was you  
9 would have to call up the merchant on the telephone and  
10 ask the merchant, Where's my order?

11           Another alternative was you could send an  
12 e-mail message to the merchant through CompuServe, and  
13 then the merchant would go through some process to look  
14 up your status and then send you an e-mail back  
15 indicating what your status was. That is not close to  
16 what is claimed in the hypertext -- in those hypertext  
17 claims.

18       Q     In the hypertext claims, there's a need for a  
19 hypertext for a transaction statement; is that true?

20       A     There has to be --

21       Q     Transaction --

22       A     Yes. There has to be a transaction statement,  
23 and then there are transaction detail hyperlinks.

24       Q     Right. And none of those were present in  
25 CompuServe?

1           A     Not close.

2           Q     Would you go to the next slide, please?

3           A     Yes.

4                     Yes. This shows what the intention of the  
5 claim in '492 is, that you ought to be able, sitting at  
6 your computer, to -- by clicking and typing things, you  
7 ought to be able to do a status inquiry and the server  
8 computer ought to be responding to your status inquiry.  
9 There's no human intervention; there's no calling up  
10 anybody on the telephone.

11          Q     All right. Let's go to the next slide.

12                     Does this relate to that same thing?

13          A     Yes. It's the same things. This is the '492  
14 hypertext claims that we're talking about.

15                     CompuServe didn't have a statement document,  
16 and it didn't have a transaction detail document. And  
17 so even adding the internet to it doesn't give you a  
18 statement document or a transaction detail document.

19          Q     So what did Mr. Tittel point to in discussing  
20 these claims?

21          A     I think he talked about his bank statement or  
22 something like that. But bank statements aren't  
23 disclosed in the internet or in the CompuServe  
24 references.

25          Q     So --

1           A     So here there are basically three steps that  
2 appear in those claims.

3                     One is you have to transmit a statement  
4 document comprising the purchase transaction records.  
5 Now purchase transactions are things that you've already  
6 purchased. So if I've made five purchases from Amazon,  
7 I'd like to be able to go back and review my five  
8 purchases, maybe learn their status, when are they  
9 coming, et cetera, cancel an order if it hasn't been  
10 filled yet. So a statement document is one that shows  
11 all of my -- all of my pending orders. That's nowhere  
12 in CompuServe.

13                     Then on that statement there has to be a  
14 transaction detail hypertext link. This is something  
15 which, if you click on it, you will get details of that  
16 particular of the five transactions.

17                     Well, okay, not only was there no statement  
18 document, but let's even forget about the internet.  
19 There wasn't any kind of way on CompuServe of obtaining  
20 that kind of information.

21                     So if you took CompuServe and added the  
22 internet to it, you wouldn't get the transaction detail  
23 hypertext link.

24                     Then you had to be able to activate -- the  
25 user had to be able to activate that link, and that

1 would send a request to the server computer for status  
2 information. That's not in CompuServe.

3 And then in response, the server would have to  
4 send the actual details of that particular historical  
5 transaction. And that's not in CompuServe either.

6 Q Let's go to the next slide.

7 A Yes.

8 So here's how CompuServe worked. You would  
9 select items for purchase, then you would click  
10 checkout, and a screen appears that lists the items that  
11 you want to purchase in this particular transaction.  
12 And then you click okay, and then you can continue on to  
13 complete the purchase transaction.

14 Well, Mr. Tittel, at least in his report -- I  
15 don't think he did it live in court -- but in his report  
16 he called this screen the statement document. But it  
17 isn't, because you haven't engaged in a transaction yet.  
18 You could always hit cancel order and it would go away,  
19 and there's no -- there's no transaction. And so, it's  
20 not a statement document.

21 Q Purchase transaction record has to be a record  
22 of a completed transaction; is that correct?

23 A Yes.

24 Q That's shown in your next slide?

25 A Yes. So this is a slide of a big grocery

1 store. And the arrow is pointing to what we refer to as  
2 an abandoned shopping cart. Apparently somebody put  
3 some items in it and they left the store without buying  
4 anything.

5 And so selecting products that you might  
6 purchase, or you might never purchase, that's not a  
7 purchase transaction. It becomes a purchase transaction  
8 when you go to the cash register and buy the stuff.

9 Q Okay. Have you summarized your analysis of  
10 these claims -- '492, Claims 41 and 61, in your next  
11 slide?

12 A Yes. And there's more missing from those.

13 So let's even assume we could take CompuServe  
14 and somehow combine it with the internet. Then these  
15 elements of the hypertext claims are all missing. We  
16 don't have the required database. There's no statement  
17 document; there's no hypertext link to be activated; and  
18 no transaction detail document comes.

19 Q Does that complete your analysis of the  
20 hypertext statement claims?

21 A Yes -- no.

22 Q Well, no.

23 A It doesn't.

24 Q It doesn't.

25 A Wow.

1 Q There's one more, 41 and 61.

2 A Yes, there are even more.

3 Yes. The server computer doesn't send the  
4 statement in response to a statement URL because there's  
5 no statement and there's no statement URL.

6 And there was another claim that required you  
7 to be able to ask for transactions that took place in a  
8 given month. CompuServe couldn't do that. And since  
9 there was no statement document, it couldn't include any  
10 of the things that are listed down on the bottom line  
11 there, the date of the transaction, et cetera.

12 Q So you put big Xs in all of those.

13 A Right.

14 Q So now let's go to the last of our three  
15 patents, the '639.

16 This is the session ID technology; is that  
17 right?

18 A That's right.

19 Q All right. Can you just briefly review the  
20 issues of state and session?

21 A Yeah, I will be very brief.

22 Q Very brief. We've heard a lot about it, but I  
23 think it would be --

24 A Right. So I think a good example the jury can  
25 probably relate to is, consider a trial. Various events



1 occur during trial that change the state of things.  
2 So when the Defense rested, it then came to the  
3 Plaintiff to put on a rebuttal case. And we are in the  
4 middle of that.

5 And when I'm done, and after I have been  
6 excused, then this trial is going to move into a  
7 different state. And then a state is going to come,  
8 hopefully tomorrow, when you're asked to retire to the  
9 jury room to consider the verdict. And then a state  
10 will occur after you come back with your verdict. And  
11 then eventually the whole thing will end.

12 And if we couldn't keep track of those states,  
13 we could never possibly ever finish a trial.

14 And the analogy on the internet is that while  
15 a shopper is engaging in an interaction with an online  
16 store, if the store can't keep track of the state of  
17 things -- which products has he viewed, which products  
18 has he already ordered, what quantity of a particular  
19 product has he ordered -- if the store couldn't keep  
20 track of those things, then the store would never be  
21 able to complete a transaction.

22 And so, I think you heard a lot of testimony  
23 about, there were debates over whether http should be  
24 stateless or not stateless or whatever. The decision  
25 was made to make it stateless, and that caused a

1 tremendous problem, and lots of people tried to solve  
2 the problem of how to add state to an essentially  
3 stateless system. And there were various solutions, one  
4 of which is in the '639 patent.

5 Q And is state the same thing as session?

6 A No.

7 Q What's the difference?

8 A If you have a state maintenance mechanism, you  
9 can, with further invention, figure out a way to use it  
10 to maintain sessions. If you can't maintain state, you  
11 can't maintain sessions. But just because you can  
12 maintain state doesn't automatically mean that it's  
13 obvious how to maintain sessions.

14 Q Do you have some slides on what is not a  
15 session identifier?

16 A Yes. Let's get past this. Talked a lot about  
17 state.

18 Okay. So I just want to harken back to the  
19 Court's construction of session.

20 It's the series of requests and responses to  
21 perform a complete task or set of tasks between a client  
22 and a server system.

23 So if you're only going to do one task, here  
24 is a request and a response, and another series of more  
25 requests and responses, and finally you're done, and

1 that's a complete task. And so that whole thing is an  
2 example of one session.

3           It's also possible to have multiple tasks. So  
4 you might finish task one, then you want to continue on  
5 in the same session and accomplish another task. And  
6 then many, many, many tasks.

7           And all of that together can be one session  
8 under the Court's construction, either of those  
9 possibilities, the single-task session or the  
10 multiple-task session.

11           And the question is how to maintain session  
12 state. How do you know when the sessions begin and the  
13 sessions end?

14           And I think there were various proposals by  
15 Mr. Tittel that this was known somehow in the prior art.  
16 But, as I said, maintaining state doesn't automatically  
17 maintain a session.

18           So there are some websites that are kind to  
19 people who speak foreign languages. They remember that,  
20 whenever you visit the site, you would like to interact  
21 with the site in French. Well, that extends over many,  
22 many, many sessions. That fact is not -- that state is  
23 not a session identifier.

24           And, in fact, Mr. Tittel didn't identify any  
25 single prior art reference that disclosed session

1 maintenance at all.

2 Q Mr. Tittel pointed to a Johnson reference. Do  
3 you recall that?

4 A Yes.

5 Q Now, was that a state -- did that reference  
6 have a session identifier?

7 A No. I'm spacing forward.

8 Q What did Johnson have?

9 A First we have to understand what a session  
10 identifier is.

11 Q Yes.

12 A The Court's construction -- or the agreed  
13 construction, I forget -- is a text string that  
14 identifies a session.

15 Q Would that apply to Johnson?

16 A So it has to be a text string and it has to  
17 identify a section. It doesn't apply to Johnson because  
18 Johnson's credential identifier could either extend over  
19 many, many different sessions, or it could stop being  
20 effective in the middle of a session. It didn't  
21 identify a session.

22 Likewise, user identifiers, like user names,  
23 don't identify a session; they identify a user. A  
24 credential identifier doesn't identify a session; it  
25 just says this person is allowed to access these certain

1 pieces of information.

2           So something that changes during a session  
3 clearly doesn't identify the session. And something  
4 that can expire or go out of business during the session  
5 doesn't identify it. And something that extends over  
6 many sessions doesn't identify a session.

7           Q     Mr. Tittel also referred to a Gifford patent  
8 in connection with his discussion of session IDs. Does  
9 that patent disclose a session ID?

10          A     I think that the use of the Gifford reference  
11 was to add the internet and hypertext to the Johnson  
12 reference, which I think he acknowledged does not  
13 disclose the internet or hyperlinks. So the idea is --  
14 I think he combined Gifford with Johnson to get this  
15 over to the internet.

16                But what you're getting over to the internet  
17 didn't have session identifiers in the first place. So  
18 you don't get session identifiers just by adding the  
19 internet into things. In fact, it makes it worse.  
20 Because the Johnson reference was in closed systems  
21 where the server knew who you were.

22                When you all of a sudden go to the open system  
23 of the internet, you can't just take Johnson and put it  
24 on the internet. In fact, to my knowledge, Johnson has  
25 never been put on the internet.

1           Q     One of the claims, Claim 60, requires a user  
2 identifier.

3           A     Yes.

4           Q     Was there any discussion of that in  
5 Mr. Tittel's testimony?

6           A     Yes. So Claim 60 requires the purchase  
7 request including an associated user identifier. But if  
8 you look back to the quotation that Mr. Tittel put up at  
9 that time he was discussing this claim, there was  
10 absolutely nothing whatsoever about a user identifier in  
11 a purchase request.

12                     And you don't even have to have a identifier  
13 in a purchase request. Because if you know -- if you  
14 have a session maintenance mechanism, and you know that  
15 the purchase request is part of this session, then for  
16 the user to identify himself at any point in the session  
17 would be sufficient. So it doesn't have to be in the  
18 purchase request.

19           Q     Now, do you have a slide that summarizes your  
20 analysis of the session management claims in the '639  
21 patent?

22           A     Yes. I just a wanted to make sure there  
23 weren't two slides. So when you ask me if I'm done, I  
24 will give you the correct answer.

25           Q     I think there's just one this time.

1           A     There's one slide, yes.

2                     So Claim 60 has all four of these limitations.  
3 Even taking Johnson, which is this credential identifier  
4 patent, and somehow adding the internet into it, you  
5 still don't get a session identifier. You don't get  
6 appending the identifier, which doesn't exist, to each  
7 of the subsequent requests.

8                     The purchase request is no disclosure of any  
9 purchase request having any user identifier. And since  
10 there's no user identifier, you can't access -- on  
11 receipt of the purchase request, you can't go and access  
12 the user information.

13                    So none of those -- none of those elements are  
14 even in the combination of the Johnson and Gifford.

15           Q     Okay. Now, there has been some discussion in  
16 the testimony in the case of basic authentication. I  
17 believe it came up with Mr. Treese and maybe others.

18           A     Yes. I think I had a slide earlier on that.

19           Q     Does that have any relationship to this  
20 discussion of identifying sessions? In other words, can  
21 basic authentication identify sessions?

22           A     No. It was recognized that authentication was  
23 needed, because a lot of worldwide websites wanted to  
24 sell content to people.

25                    The New York Times, for example, didn't give

1 away its historical articles for free. And so if you  
2 made a request to the New York Times server, the New  
3 York Times would have to have some way of knowing that  
4 you were a paid subscriber.

5           So a mechanism was added to the http protocol  
6 that would enable you to add a user name and password in  
7 a header field in the http request. So there's http,  
8 it's got some headers, and then there's some html in the  
9 middle of it.

10           That's a credential identifier. That  
11 basically says, here's a token which will tell you that  
12 I'm authorized to access these -- this content. And  
13 that may -- that token may be good for years. It has  
14 nothing to do with session boundaries.

15       Q     All right. Now skipping ahead to the next  
16 slide.

17           You tested the additional considerations of  
18 non-obviousness?

19       A     Yes. So even if a combination of different  
20 prior art references seem to have the elements of the  
21 claim, even that doesn't mean that the claim is obvious,  
22 because it's required to look at actual evidence of  
23 whether or not the claim is obvious.

24           And those -- that evidence is called  
25 additional considerations of non-obviousness. And my



1 understanding is that the law requires such additional  
2 considerations to be considered if they exist. And they  
3 do exist in this case.

4 Q And did Mr. Tittel factor this into his  
5 analysis?

6 A No, not at all.

7 Q Give some examples of these additional  
8 considerations that should be looked at.

9 A Yes. So one example is praise by others or  
10 professional acclaim.

11 If somebody does something that's very trivial  
12 and obvious, it's unlikely that people are going to  
13 praise them for it. So if you praise somebody, it means  
14 they did something significant.

15 Failure of others. So if you're going to  
16 argue that an invention is obvious, and 20 different  
17 people tried to make it and they couldn't, that's very  
18 strong evidence that it wasn't obvious, even if it  
19 happens to occur in some arbitrary combination of  
20 references that you might put together.

21 Likewise, commercial success. If I can make a  
22 lot of money by making this invention; and it's obvious  
23 to make that invention, then lots of other people are  
24 going to do it, too, because we can rely on human beings  
25 to want to make money. And that's the theory behind the

1 commercial success factor.

2 And then commercial acquiescence, the  
3 licensing of things to others. If something is obvious  
4 and easy to make, I'm not going to pay you for it. I'm  
5 going to have my own guys do it themselves.

6 And so these are -- this is the reasoning  
7 behind these -- these additional considerations of  
8 non-obviousness.

9 Q And did you take -- did you find any or are  
10 you aware of any praise by others --

11 A Yes.

12 Q -- in connection with the Soverain patents and  
13 their inventions?

14 A Yes. The technology of Open Market at the  
15 time and the importance of the patents was recognized in  
16 articles in the New York Times and the Wall Street  
17 Journal.

18 And the Transact product itself, which  
19 embodies, it says, Soverain's inventions -- which means  
20 they're now owned by Soverain, but it was Open Market's  
21 inventions -- received industry praise, and they  
22 received an internet excellence award presented by  
23 NetWorld, NetWorld Interop.

24 Q Is there anything in Mr. Tittel's book about  
25 Transact?

1           A     Yes. Mr. Tittel himself praised Open Market.

2     And I don't think he specifically mentioned Transact.

3           Q     You're right.

4           A     And these are quotations from one of  
5     Mr. Tittel's books. Open Market is a leader in  
6     electronic commerce products since early 1995 -- 1994.

7                     But we know what that product is. It's  
8     Transact.

9                     Open Market's software solution is regarded as  
10    one of the most viable for businesses wanting to  
11    establish an online commerce presence, and Open Market  
12    software, quote, functions with all types of browsers,  
13    all varieties of payment types, and all security  
14    protocol formats.

15          Q     That's right out of Mr. Tittel's writings?

16          A     Yes. The quotation marks are his.

17          Q     What about commercial success? Are you aware  
18    of any commercial success?

19          A     I've heard testimony and seen documents that  
20    there were a huge number of licensees, more than a  
21    thousand licensees of Transact.

22                     I think we heard testimony that it occupied  
23    something like 30 percent of the market for such  
24    software. And some of these large corporations that are  
25    listed there were licensees.

1           Q     What about license -- what about patent  
2 licenses?

3           A     Well, my understanding was, there was -- there  
4 was patent a license. I don't think I've listed that.

5           Q     I think we have the next --

6                     MR. GIANNETTI: If you'll go to the next  
7 slide.

8           A     Ah, yes. These are companies that have  
9 licensed Soverain's patented technology.

10          Q     (By Mr. Giannetti) Now, I think another factor  
11 that you mentioned was failure of others?

12          A     Yes, and I think that's extremely significant  
13 here.

14          Q     Can you elaborate on that?

15          A     Yeah.

16                     It was known early on -- when the http was  
17 being developed, there was really great debate -- and a  
18 lot of this debate is available publicly, because that's  
19 one great thing about the internet, is this worldwide  
20 communication medium.

21                     And when people are doing things on the  
22 internet, they make a record of it on the internet. And  
23 so we have lots of bulletin boards and e-mail forums and  
24 exchanges where technical people were debating back and  
25 forth, should http have state or shouldn't it have

1 state?

2 And there were advantages and disadvantages.

3 And eventually, the decision was made in http 1.0 to not  
4 have state. Everybody knew that that was going to  
5 create problems, and lots of people went off attempting  
6 to solve the problem of how can we add state to http.

7 And the first viable solution that I know of  
8 was in the '639 patent. It's the session identifier.  
9 So many people tried, but the inventors here were the  
10 first ones to actually find a solution.

11 Q I think we've reached your final slide,  
12 Professor.

13 A All right.

14 Q The bottom line.

15 A Bottom line, that Mr. Tittel and Newegg and  
16 all its witnesses haven't shown that any asserted claim  
17 is anticipated, and likewise, they haven't shown that  
18 any asserted claim is obvious.

19 Q And those are your opinions in this case?

20 A They are.

21 MR. GIANNETTI: Nothing further. Pass  
22 the witness.

23 THE COURT: All right.

24 MR. SAYLES: May it please the Court.

25 THE COURT: Yes.

1 CROSS-EXAMINATION

2 BY MR. SAYLES:

3 Q Mr. Shamos, good late afternoon.

4 A Good afternoon.

5 Q I first want to tell you that I respect your  
6 education, and I intend to be fair with you, and I ask  
7 you to be fair with me.

8 Will you do that?

9 A We'll give it a try.

10 Q All right. You have pursued a number of  
11 vocations, haven't you?

12 A Yes.

13 Q You've been a practicing lawyer.

14 A That's correct.

15 Q You have stood in the place that I stand --  
16 not this courtroom but other courtrooms -- doing what  
17 the lawyers are doing in this case, haven't you?

18 A I have.

19 Q And you've been a full-time professor in  
20 college, haven't you?

21 A Yes.

22 Q You've been a part-time professor in college,  
23 haven't you?

24 A Yes. You were the founder and president of a  
25 company called Unilogic, weren't you?

1           A     That's right.

2           Q     And you were the founder and president of a  
3 company called -- is it Lexium? Did I say that right?

4           A     That -- unfortunately, that's the way a lot of  
5 my employees pronounce it, but it's actually Lexium  
6 (different pronunciation).

7           Q     All right. And you were a founder and  
8 president of that for a while?

9           A     Yes.

10          Q     And you're actually an official referee,  
11 aren't you?

12          A     Yes.

13          Q     In the area of billiards; is that right?

14          A     That's right. It's -- I'm certified to  
15 referee world tournaments.

16          Q     All right. And you have been an author,  
17 correct?

18          A     Yes.

19          Q     You've written articles?

20          A     Yes.

21          Q     You've written books?

22          A     Not as many as Mr. Tittel, but I have written  
23 books.

24          Q     All right. And you've done that, hopefully,  
25 for a return on your efforts; is that right? For pay.

1           A     Many of those things were successful at  
2     producing a return. They weren't all successful.

3           Q     All right. I'll grant you that.

4                     You've actually written nine books on the  
5     subject of shooting pool; is that right?

6           A     Well, if you include all the foreign  
7     translations of them, yes, I think that's right.

8           Q     All right. And you are actually the president  
9     of another business, aren't you, Mr. Shamos?

10          A     I'm not sure which one you're referring to.

11          Q     Expert Engagements, LLC.

12          A     Yeah. I'm actually not sure whether I have  
13     the title of president, but yes. My wife and I own  
14     Expert Engagements, LLC.

15          Q     All right. Did you know that your website  
16     says that you are the president of Expert Engagements,  
17     LLC?

18          A     I didn't know that. I'll go check, but...

19          Q     All right.

20                     MR. SAYLES: May I approach the witness  
21     briefly, Your Honor?

22                     THE COURT: Yes, you may.

23          Q     (By Mr. Sayles) That's your website that says  
24     you're the president.

25          A     Oh, I'm sorry. I'm not doubting the



1 correctness of what you were saying.

2 Q Oh.

3 A I just -- yes. The website does say that. I  
4 didn't remember it said that, but it does say that, yes.

5 Q All right. Would you agree with me that in a  
6 case on trial where justice is being sought, the case  
7 ought to be determined on the basis of the facts?

8 A Well, yes, to the extent that if the facts  
9 were the only consideration, then it needs to be decided  
10 on the basis of the facts, yes.

11 Q All right. And this Expert Engagements  
12 business that I asked you about just a moment ago is  
13 actually an expert witness locating service that you  
14 provide; is that right?

15 A Well, it started out that way, but it's come  
16 down to where I'm basically the only expert witness that  
17 it locates.

18 Q All right. Well, you're -- so is that -- is  
19 that actually advertising for you, sir? You recommend  
20 yourself when people call your service; is that right?

21 A Well, okay. So let me -- since you've asked,  
22 I should explain this.

23 I've been doing expert witness work for some  
24 time, and I would frequently get requests from people  
25 for expert witness services that were just way outside

1 of any area of expertise that I had.

2 And for a while, I would refer them to various  
3 professors at Carnegie Mellon University. And after a  
4 while, I was doing it so much, I figured I may as well  
5 get paid for that.

6 And so what I would do is make arrangements  
7 with professors that if I found the work, that I would  
8 be able to charge a relatively small fee for that.

9 Q All right.

10 A And so we then started -- my wife and I -- and  
11 the reason I didn't know I was president is she runs the  
12 whole thing. I do the work of the expert witnessing,  
13 but she runs everything else.

14 And so what would happen is, we would get  
15 calls for the weirdest things, because we're very small,  
16 and people only came to us when they were desperate and  
17 all the other expert witness agencies couldn't locate  
18 anybody for them.

19 And so we went off on a series of very odd  
20 projects. It took an incredible amount of time, and it  
21 resulted in very little compensation.

22 And so eventually, we really stopped taking on  
23 new engagements of that kind. And so when people called  
24 Expert Engagements, if it's not in my area of expertise,  
25 we basically say: No, I can't help you.

1           But if it has to do with computers or internet  
2 commerce, then it's me.

3           Q     All right. Well, there's your explanation.  
4 Now let me ask you a few questions about it.

5           A     Sure.

6           Q     Did you know that your website was still up in  
7 the year 2010 advertising your services for locating  
8 experts for others?

9           A     Oh, we will do it. It's just not a main focus  
10 of the business.

11                For example, in the computer field, there are  
12 many areas of computers that I would not consider myself  
13 an expert in, but I know people who are 50 feet down the  
14 hall from me at the university.

15                And so if it's easy for me to find somebody,  
16 we'll do it. But the last time -- the straw that broke  
17 the camel's back here was somebody wanted an expert on  
18 the construction of crossbows because somebody had been  
19 injured while they were trying to cock a crossbow, and  
20 they were trying to allege that the manufacturer was  
21 negligent.

22                I don't know anything about crossbows, and I  
23 didn't know anybody who knew anything about crossbows,  
24 and I don't have the -- we don't have the time to go  
25 find people who do that.

1           Q     All right. Well, there's another explanation.  
2 But the fact is, you have a company that advertises to  
3 anyone who accesses your website that you are an expert  
4 witness locator; isn't that true, sir?

5           A     Yes. It's not only true that we advertise;  
6 it's true that we'll do it.

7           Q     All right. And you have appeared in  
8 courtrooms yourself many times, haven't you?

9           A     Yes, I have.

10          Q     As a witness; isn't that right?

11          A     Yes.

12          Q     And you -- obviously, like other expert  
13 witnesses in this case, you charge for your time, don't  
14 you?

15          A     Yes.

16          Q     And your standard charge, at least at the time  
17 of your report for your time, was \$525 an hour; is that  
18 right?

19          A     Yes.

20          Q     Isn't it true that Open Market did not invent  
21 the internet?

22          A     Correct.

23          Q     Didn't -- didn't invent shopping carts?

24          A     Hmm. According to the Court's construction,  
25 it didn't invent shopping carts.

1 Q All right. Didn't invent hypertext?

2 A Correct.

3 Q Did not invent session IDs?

4 A I -- it did -- I think it invented session  
5 IDs, yes.

6 Q It didn't invent cookies, did it?

7 A No.

8 Q It didn't invent browsers, did it?

9 A No.

10 Q It didn't invent databases either, did it?

11 A No.

12 Q Now, you mentioned that you are a lawyer, and  
13 I brought it up again. You're not here to give opinions  
14 about the law. That's understood and agreed, right?

15 A Unless you ask me.

16 Q Well, I don't intend to, and you don't intend  
17 to offer any opinion on the law, do you?

18 A My direct testimony is over, so...

19 Q Okay. And I just want to establish one fact:  
20 Isn't it correct that no party to a patent lawsuit is  
21 allowed to call the Patent Examiner?

22 A Well, that's a rule of the Patent Office.

23 Q All right. So neither Soverain can call the  
24 Patent Examiner on the phone and ask them questions or  
25 take their depositions nor can Newegg; isn't that right?

1           A     That's my understanding of the Patent Office  
2 practice.

3           Q     And with regard to the issue of validity, it  
4 is ultimately up to the jury in cases like this to  
5 decide that; is that right?

6           A     I think that's why we're here.

7           Q     And with respect to some of the CompuServe  
8 books, you know that Exhibit 2, CompuServe Fourth  
9 Edition, was not cited in the references at the Patent  
10 Office. You know that, don't you?

11          A     I didn't recall which edition of which book it  
12 was. CompuServe itself was before the Patent Office.  
13 That book may not have been.

14          Q     CompuServe was mentioned before the Patent  
15 Office, but this book wasn't; isn't that so?

16          A     As I say, I'll take your word for it.

17          Q     All right. CompuServe CIM, which is  
18 Exhibit 3, is not listed in the cited references before  
19 the Patent Office; isn't that right?

20          A     Yes. I think there were huge numbers of  
21 CompuServe books, which we would refer to as cumulative.

22          Q     The answer is, it was not cited in the  
23 references; isn't that right?

24          A     I believe the first word of my answer was yes.

25          Q     All right. And as a matter of fact,

1 Exhibit 4, Using CompuServe, is not cited in the  
2 references that were listed in the patents before the  
3 Patent Office; isn't that right?

4 A I'll take your word for it.

5 Q All right.

6 MR. SAYLES: Pass the witness.

7 THE COURT: All right. Redirect?

8 MR. ADAMO: Excuse me, Your Honor.

9 Mr. Giannetti wants me to get him something.

10 Good enough?

11 He's got the slides to my opening.

12 Excuse me, Your Honor. Thank you.

13 REDIRECT EXAMINATION

14 BY MR. GIANNETTI:

15 Q We just put a slide up. This is a page from  
16 the '314 patent, from the examination of the '314  
17 patent. And isn't it correct that CompuServe was before  
18 the Patent Office in the examination of the '314 patent?

19 A Yes. I testified to that. And in fact, this  
20 reference was actually posed by CompuServe itself, which  
21 would indicate to me that it would be more authoritative  
22 than a textbook written by an outsider.

23 Q And on the subject of your compensation --

24 A Yes.

25 Q -- does your compensation depend in any way on

1 the outcome of this case?

2 A I hope not. I mean, that's not the deal, no.

3 MR. GIANNETTI: Nothing further. Pass  
4 the witness.

5 MR. SAYLES: Nothing further.

6 THE COURT: All right. Thank you. You  
7 may step down.

8 All right. Very well. Mr. Adamo, who  
9 will be your next witness?

10 MR. ADAMO: I'm going to say the magic  
11 words. We're done, Your Honor.

12 THE COURT: You rest. All right. Very  
13 well.

14 Defendant finally close?

15 MR. SAYLES: Yes.

16 THE COURT: All right. Plaintiff finally  
17 close?

18 MR. ADAMO: Yes. And I reiterate my Rule  
19 50 motion that I just filed.

20 THE COURT: Okay. Very well. I'll take  
21 those up.

22 All right, Ladies and Gentlemen of the  
23 Jury, that concludes all of the evidence in the case.  
24 We've reached that -- that place that I know you've all  
25 have been anxious to get to.



1                   It's almost 5:00 -- or it's a little  
2 after 5:30. We're -- I'm going to recess you until in  
3 the morning in just a moment.

4                   First, I'd like to get a little guidance  
5 from y'all. For this whole week, the lawyers and the  
6 Court have been in the driver's seat. Tomorrow y'all  
7 get in the driver's seat.

8                   So I'm going to start giving you a little  
9 training on that, and I'd like to ask you this. Let me  
10 tell you what we've got to do tomorrow.

11                  When we come in, I will deliver a Court's  
12 Charge to you, which is rather lengthy. I'm going to  
13 read it. You'll have copies of it. I'll skim over some  
14 parts, but I'll read most of it for you.

15                  It's probably going to take 45 minutes to  
16 an hour. After that, we'll probably take about a  
17 15-minute break, and then you will hear closing  
18 arguments from both sides.

19                  How long did I give y'all for closing  
20 arguments?

21                  MR. ADAMO: Sixty minutes each, Your  
22 Honor.

23                  THE COURT: Sixty?

24                  MR. ADAMO: Yes. Now, don't -- I knew he  
25 was going to do this. He told me earlier.

1                   MR. SAYLES: Your Honor, 45 minutes  
2 should be sufficient.

3                   MR. ADAMO: I planned on 60, and he  
4 asked --

5                   THE COURT: Well, we'll talk about it in  
6 the morning. You sharpen your pencil tonight.

7                   Anyway, we'll have either 45 or 60  
8 minutes of closing argument on each side. So that's  
9 going to put us until about noon, and at that point in  
10 time, you'll get the case. You'll be in the driver's  
11 seat from then on. You'll begin your deliberations.

12                   What I'd like to know from you now is, we  
13 had sandwiches brought in for you today, and I want to  
14 thank both parties. They not only treated y'all but the  
15 Court's staff.

16                   They brought sandwiches for everybody so  
17 that we could eat them on a short lunch hour, and then I  
18 ended up giving you a long lunch hour, because I thought  
19 we were going to be through by 4:00 o'clock. But it  
20 didn't work out that way.

21                   So, anyway, thank y'all very much for the  
22 sandwiches. They were enjoyed by everyone. I'm sure  
23 the jury did as well.

24                   My question to you is, tomorrow you're  
25 probably going to be through hearing argument around

1 noon. Do you think you would like to take an hour's  
2 break, go out and have lunch, and then come back and  
3 start deliberating, or would you rather have sandwiches  
4 brought in and go ahead and start deliberating as you  
5 eat?

6 JUROR: We'll do while we eat.

7 THE COURT: What's that?

8 JUROR: We'll do it while we eat.

9 THE COURT: Okay. That's wonderful.

10 JUROR: We're tired of y'all. No  
11 offense.

12 [Laughter]

13 MR. ADAMO: None taken. We understand.

14 THE COURT: We understand. We  
15 understand. It's not cruel and unusual punishment, but  
16 it is punishment. You might disagree at this point. I  
17 shouldn't mention that right --

18 JUROR: I wonder what I did.

19 THE COURT: I promise you, when it's  
20 over, you'll look back on it as a great experience in  
21 your life, but hard to see right now. I didn't get much  
22 response to that suggestion.

23 All right. Well, we will do that then.  
24 So we can plan -- if the parties don't mind providing  
25 lunch again tomorrow.

1 MR. ADAMO: Absolutely, Your Honor.

2 THE COURT: And we'll have lunches, and  
3 everyone can work through.

4 MR. ADAMO: In fact, if anybody wants a  
5 specific something, we'll even take orders, Your Honor.

6 THE COURT: Would y'all like anything  
7 different rather than Jason's Deli?

8 JUROR: T-bone steak, medium rare.

9 [Laughter]

10 THE COURT: Would you like --

11 MR. ADAMO: Are you an onions man? Do  
12 you eat onions?

13 JUROR: Your Honor, what would you like?

14 THE COURT: That only comes if you're  
15 still deliberating at 6:30 at night.

16 JUROR: We'll be done by then.

17 THE COURT: So for lunch, we can do  
18 sandwiches. We can get you Bruno's Pizza, which is real  
19 good, if you would rather have pizza. Stick with --  
20 some people don't like pizza. I saw a couple of --  
21 okay. We'll just stick with sandwiches then. How about  
22 that?

23 Or I'll leave it up to the parties.  
24 Y'all get together. If you want to treat them to  
25 anything different, you can.

1                   MR. ADAMO: We can, you know, mix and  
2 match a little, Your Honor. Maybe we could run some  
3 pizza in, if somebody wanted, and bring sandwiches, and  
4 everybody can just pick.

5                   THE COURT: Okay. Well, y'all get  
6 together and work it out. I know whatever you get, they  
7 will be very appreciative of.

8                   Okay. So that's the plan for tomorrow.  
9 Still you need to remember my instructions. Do not  
10 discuss this case among yourselves. Do not discuss it  
11 with anyone else, and don't do any independent  
12 investigation. Stick to the rules.

13                   Tomorrow at noon, that's when you can  
14 finally start discussing the case.

15                   So at this time, with the Court's thanks  
16 and the parties' thanks, you are excused for the  
17 evening. We'll see you back here at 9:00 o'clock in the  
18 morning.

19 Be in recess.

20                   COURT SECURITY OFFICER: All rise.

21                   (Jury out.)

22                   THE COURT: All right. Have y'all picked  
23 the foreperson yet?

24                   MR. ADAMO: I was about to say. I don't  
25 even think we have to take an educated guess.

1 THE COURT: Very well. Motions for JMOL.

2 MR. ADAMO: You have mine.

3 THE COURT: You serious about any of it?

4 MR. ADAMO: Yeah. I'll tell you one --  
5 yeah. I'm serious about all of it, but I'll tell you  
6 one part. Your Honor, I'll tell you one part -- really,  
7 the two parts that I think are serious, because they  
8 also would match up to our objections to the jury  
9 charge.

10 I believe that there just isn't evidence  
11 to go to the jury on some --

12 THE COURT: Priority date?

13 MR. ADAMO: -- some of the materials that  
14 are in the charge, and I've got those in the motion as  
15 well.

16 THE COURT: Well, which ones are they?

17 MR. ADAMO: In Your Honor's charge, it  
18 would be Pages 11, 12 -- it would be Pages 11 through  
19 15. It's the effective filing date of the '639 patent.

20 THE COURT: Okay. Do we have any  
21 that's -- could you go to the podium, please, Mr. Adamo?

22 MR. ADAMO: Yes.

23 THE COURT: And if counsel could go to  
24 the podium as well.

25 All right. Do we have a dispute about

1 the effective filing date of the '639?

2 MS. FROST: No, Your Honor. That was  
3 going to be my good news for you.

4 THE COURT: Thank you.

5 MS. FROST: That we take you seriously,  
6 and we cut it down, and those are not in the case, so...

7 THE COURT: Okay. JMOL as to the  
8 effective date of the '639 is granted. 5.1 is out of  
9 the charge.

10 What about written description?

11 MR. ADAMO: Well, yeah, that would go.  
12 5.1.1 would go.

13 MS. FROST: Yes.

14 THE COURT: Written description is out.  
15 All right.

16 MR. ADAMO: 5.1.2 would go.

17 MS. FROST: Correct.

18 THE COURT: All right.

19 MR. ADAMO: 5.1.3 would go.

20 MS. FROST: Yes.

21 THE COURT: Wonderful. I hate reading  
22 those.

23 All right.

24 MS. FROST: There are a couple of other  
25 places in the charge, Your Honor, where --

1 THE COURT: Excuse me?

2 MS. FROST: There are -- I'm sorry.

3 There are a couple of other the places in the charge  
4 we'll get to where there are some references to it that  
5 I'll point out to you that we can omit, or I can tell  
6 you now, whichever you prefer.

7 THE COURT: Well, let's -- let me get  
8 these down first.

9 MS. FROST: Because they were just  
10 omissions related to these particular changes.

11 THE COURT: Okay. Well, are you in  
12 agreement with the ones that Mr. Adamo just mentioned?  
13 And to be sure we're all clear on it, it's 5.1, 5.1.1,  
14 5.1.2, 5.1.3 --

15 MS. FROST: Yes.

16 THE COURT: -- of the charge.

17 MS. FROST: Correct.

18 THE COURT: All right. JMOL is granted  
19 on those. It's not included in the charge.

20 What other sections can we do away with?

21 MR. ADAMO: I also, Your Honor -- 5.3 on  
22 obviousness, which would also pick up 5.3.1, -.2, -.3  
23 and -.4, so, basically, Pages 19 all the way through 24.

24 There hasn't been any attempt at making a  
25 proper obviousness case here. I mean, Mr. Tittel



1 started to try to opine, and you remember there was a  
2 sustained objection on -- on obviousness.

3 THE COURT: Well, before we argue it, is  
4 there any objection to that?

5 MS. FROST: Yes, Your Honor.

6 THE COURT: Okay.

7 MS. FROST: We believe there's an  
8 obviousness issue that should go to the jury or should  
9 be granted in our favor as a matter of law, which brings  
10 me to my JMOLs, which are being electronically filed  
11 right now, and I'm going to be handing them up to Your  
12 Honor in just a moment.

13 THE COURT: Okay. So you object to the  
14 obviousness?

15 MS. FROST: Yes, I do.

16 THE COURT: Okay. What -- what evidence  
17 are you relying on for obviousness?

18 MS. FROST: The evidence of Mr. Tittel.  
19 And if I may go to my desk --

20 THE COURT: Didn't they ask him on  
21 deposition that he was not going to the express any  
22 opinions on that, and did he not -- they objected, and  
23 so, therefore, they didn't waive it, and he did not  
24 express any opinions, as I recall, on obviousness?

25 MR. GIANNETTI: That's right, Your Honor.

1 He didn't at his deposition.

2 THE COURT: Okay. I'm asking them. I  
3 know you don't think he did.

4 MS. FROST: Your Honor, I may defer to my  
5 co-counsel here for the details, since I wasn't present  
6 at the deposition, but it's our view that you don't need  
7 an expert witness necessarily to opine on obviousness in  
8 a case like this and that the references themselves from  
9 which the jury can make that conclusion are in evidence  
10 and are before them, and that's sufficient.

11 MR. ADAMO: Your Honor, the law is just  
12 dead set against that. The Federal Circuit has several  
13 times specifically said that -- and this is a  
14 complicated case. This is not trying to decide whether  
15 we've got a can opener patent that's obvious here. This  
16 is a complicated case.

17 The Circuit has been exceedingly clear  
18 that you don't just get to take a couple of exhibits,  
19 dump them into the jury box, stand up on final argument,  
20 wing it, and get a verdict on it.

21 I've actually got a bench memo on exactly  
22 this point that I could file later in the day, because  
23 we were expecting something like this might happen. But  
24 the Circuit is absolutely clear that in a case like  
25 this, you need expert opinion testimony to get to the

1 jury, and they don't have it.

2                   And when they tried today, there was --  
3 it looked like, you know, an attempt on Mr. Tittel's  
4 part to go to obviousness. Mr. Giannetti got up and  
5 objected, and Your Honor sustained the objection, and  
6 that was the end of it.

7                   So there isn't enough evidence here to  
8 get to the jury on obviousness. And there's no  
9 testimony about a Graham analysis. Nothing even close.  
10 So you want to call it Graham/KSR, I don't care what you  
11 call it. There wasn't sufficient evidence here. There  
12 wasn't even an attempt made to do it.

13                   And I played that out in my -- it's in my  
14 JMOL motion, but it also was my second reason and my  
15 only other reason for objecting to the charge. There  
16 isn't an obviousness case here for the jury to decide.

17                   I mean, rigorously, it's a legal issue  
18 under -- there are underlying -- excuse me --  
19 incorporated underlying factual matters, and they  
20 haven't put any evidence in on any of the underlying  
21 factual matters.

22                   And that's really the only fact issue in  
23 an obviousness case, as Your Honor knows. KSR confirmed  
24 obviousness is a legal issue. Anticipation is a fact  
25 issue, but obviousness is a legal issue.

1                   So the only thing that can go to the jury  
2 are the underlying fact issues, and there's zero  
3 evidence on any of the underlying fact materials and  
4 ground. Zero. There's nothing for the jury to decide.

5                   THE COURT: Any response?

6                   MS. FROST: We respectfully disagree,  
7 Your Honor, with that. We believe there's plenty of  
8 factual evidence in the record from which the jury could  
9 make that conclusion.

10                  THE COURT: Okay. Do you have any legal  
11 authority as to whether expert testimony is or is not  
12 necessary for -- in order for it to meet your burden as  
13 to obviousness?

14                  MS. FROST: There are certain cases --  
15 let me see if I can get that. It's easier for me to  
16 read off of this than my e-mail.

17                  There's a ++Blackboard versus  
18 Desire2Learn at 574 Fed 3d 1371, Your Honor, that  
19 indicates that expert testimony is not required on the  
20 ultimate issue of validity where witness testimony and  
21 documents are in evidence on which a conclusion would be  
22 based.

23                  THE COURT: And what -- was that issue  
24 obviousness in that validity case?

25                  MS. FROST: I believe so.

1 THE COURT: Okay. Anything further?

2 MS. FROST: And there's a case in our  
3 JMOL Mr. Gaston just pointed out to me that we cite for  
4 both obviousness and anticipation that expert testimony  
5 is unnecessary, and that's Proveris Science Corps versus  
6 Innova Systems, Inc., which is 536 Fed 3d 1256, and  
7 that's Federal Circuit 2008.

8 MR. ADAMO: Well, Your Honor, I've got  
9 the senior case here, Centricut, Llc, versus Esab Group,  
10 Inc., 390 Fed 3d 1361 and 1370, Fifth Circuit 2004, and  
11 the later panel decisions -- I don't know what these  
12 other two cases hold, but Your Honor is well aware the  
13 Circuit doesn't let the later panel trump the earlier  
14 panel.

15 And this case is plain -- in a case  
16 involving complex technology, the patentee cannot  
17 satisfy its burden of proof by relying only on the  
18 testimony from those who are admittedly not an expert in  
19 the field. There hasn't been any expert testimony here.  
20 Tittel -- Mr. Tittel was the only one that could have  
21 given it, and he forswore it during his deposition. I  
22 can get you more -- as I said, I can get you more  
23 pointed authority on this. I know there is more. We  
24 can have it over here in an hour.

25 THE COURT: Do you have it briefed in

1 your JMOL motion?

2 MR. ADAMO: Not -- yes, but not to the --  
3 the answer is yes. I have more depth in the bench memo.

4 THE COURT: All right. Both of you have  
5 until 7:00 o'clock to file any additional briefing on  
6 that one you wish. I'll take that one under advisement.  
7 I am -- and I'll tell Defendants, I think you're on a  
8 little bit of thin ice on that one, but...

9 Okay. What's next? Was that all you  
10 had?

11 MR. ADAMO: No. I was focusing on our  
12 objections to the charge, and that's all the objections  
13 we had to the charge. The verdict form looks good for  
14 us.

15 THE COURT: Okay. You're kind of -- we  
16 jumped from JMOL -- you started off on JMOL, and you  
17 said there are a few things that relate to the charge on  
18 the JMOL.

19 Is there anything else orally that you  
20 wish to present or point out to the Court with regard to  
21 your JMOL motions?

22 MR. ADAMO: Sorry, Your Honor. I've been  
23 trying to sit here and listen to the testimony and read  
24 briefs, get my closing together. If I might have one  
25 second.

1 Well, frankly, yes, they don't have an  
2 anticipation case either. One reference. They have no  
3 evidence that shows any one reference anticipates any of  
4 the seven claims of the three patents-in-suit, and  
5 that's on Pages 1 and 2 of my -- my JMOL brief.

6 The CompuServe books are scattered all  
7 over the place on different versions, so that doesn't  
8 cut it, and they don't go far enough. The books  
9 themselves as art don't go far enough. And Mr. Trevor  
10 didn't try to apply them. He admitted there's no  
11 implementation.

12 So the books themselves don't act as  
13 anticipatory references, particularly not the way they  
14 were presented, all globbed together. So they violate  
15 the one-reference rule.

16 CompuServe wasn't shown the extent --

17 THE COURT: Okay. Counsel, what's your  
18 reference?

19 MS. FROST: Yes, Your Honor. We think we  
20 have a number of references. Indeed, we believe that  
21 there's sufficient evidence, in some instances, to  
22 entitle us to judgment.

23 The testimony and accompanying exhibits  
24 of Mr. Treese, Trevor, and Tittel, including Defendant's  
25 Exhibits 2, 4, 12, which is the Gifford patent, and 27,

1 which is the Johnson patent, singularly each anticipate.  
2 And I have in our motion, which has been electronically  
3 filed, and I'll hand up in a moment, the specific claims  
4 of each patent, which we believe reference anticipates.

5 MR. ADAMO: There's been no showing.  
6 There's been no evidence to demonstrate that any one of  
7 those references singularly anticipates.

8 And this is the same thing. You can't  
9 just -- the Circuit has been adamant about this, Your  
10 Honor. You can't just mark exhibits, a piece of art,  
11 walk over here, pitch it into the jury, walk over there  
12 and do closing argument.

13 The evidence isn't here. Element by  
14 element, that's what the Court requires. The Circuit is  
15 adamant about that, and anticipation in particular.  
16 One reference, claim by claim, element by element. We  
17 haven't seen it.

18 You can argue all you want about what  
19 Johnson may or may not say. With all due respect, I  
20 mean, Ms. Frost is a fabulous appellate lawyer, but  
21 she's no expert witness, and her testimony isn't  
22 probative about anything, no more so than mine, some  
23 lawyers signing a brief.

24 The testimony isn't probative on the  
25 point either. It's what's in the record. It isn't in



1 the record as it stands right now.

2 MS. FROST: Your Honor, the evidence of  
3 the witnesses, Mr. Treese, Trevor, and Tittel, all of  
4 which is in the record, did sufficiently, with the  
5 references, we submit establish --

6 THE COURT: Did they go through those  
7 references, though, in a checklist fashion? I don't  
8 recall.

9 MR. ADAMO: No. I'm sorry.

10 THE COURT: Not necessarily a checklist,  
11 but did they deal with the references element by  
12 element?

13 MS. FROST: I believe they did, Your  
14 Honor. I'll defer to my counsel, who actually put them  
15 on, if you would like to hear more specifics.

16 THE COURT: Sure. Uh-huh.

17 MR. BALDAUF: If I may, Your Honor, with  
18 respect to the claims of the '314 patent, specifically,  
19 using CompuServe was cited with respect to every one of  
20 the claim limitations, and we went through and checked  
21 them off.

22 With respect to the additional  
23 claim limitation --

24 THE COURT: But CompuServe was not one  
25 reference, was it?

1                   MR. BALDAUF: Using CompuServe was one  
2 single book, and that was recited with respect to all of  
3 the limitations separately. Also, How to Get the Most  
4 Out of CompuServe was used.

5                   They were both used for every limitation,  
6 and they both went up and corresponded to the  
7 checkmarks. So there were two separate references.

8                   MR. ADAMO: Okay. May I respond just  
9 briefly on this?

10                  THE COURT: Yes.

11                  MR. ADAMO: First of all, Treese, it's my  
12 inventor. I put him on. I can guarantee you, Treese  
13 did not put on any testimony in here demonstrating that  
14 anything's anticipated.

15                  So I'm not sure what Ms. Frost is talking  
16 about, but nobody put Treese on for that.

17                  And these other checklist things, okay,  
18 arguments about inherency, which is what Tittel did, to  
19 the extent they tried to use the checklist.

20                  First of all, the checklist quotations  
21 don't say what the checklists say, but more to the point  
22 is, they tried to argue inherency. Inherency requires  
23 proof that something is always inevitably going to  
24 happen.

25                  To the extent there's any proof on that

1 issue, when Mr. Giannetti cross-examined him, he  
2 admitted that things weren't inherent. It's a  
3 possibility. That doesn't cut it. That's not enough.  
4 So, Your Honor, I mean, I realize that the tendency,  
5 when we're this close to the end, with a jury in the box  
6 and closing arguments ready, is the tendency is to err  
7 on the side of letting it go to the jury, but this is --  
8 this is really -- I mean, they've taken the references,  
9 they're going over here, and they're pitching them in  
10 the box, and then they're going to try to tie it  
11 together in closing tomorrow.

12 Now, no offense to Mr. Sayles, but he  
13 doesn't know a darn thing about this stuff at the end of  
14 the day, and neither do I. And more to the point, what  
15 we say isn't probative.

16 That's all. I'll be quiet now.

17 MR. BALDAUF: Your Honor, I couldn't  
18 disagree more. I put the witness on myself.

19 First of all, Mr. Trevor was here and  
20 explained the various components of the system. The  
21 jury heard that.

22 The Using the CompuServe book is a  
23 separate reference, went through and matched up with the  
24 claims, as to How to Get the Most Out of CompuServe.  
25 Mr. Tittel testified as to what was taught in those

1 elements, and based upon his understanding of how these  
2 systems work, what is taught in there.

3 We did it for every single one of those  
4 claims.

5 Going forward, with respect to the '639  
6 patent, we did the same thing with the Johnson/IBM  
7 reference and went through those limitations, with the  
8 combination, which is simply the use of the hypertext.

9 Likewise, when we were talking about the  
10 '492 patent session identifier claims, we likewise  
11 applied the CompuServe references individually to all of  
12 those claim limitations themselves with the use of the  
13 underlying basic protocols of the internet that were  
14 well-known to everybody.

15 MR. ADAMO: That's combination  
16 references. That's two. I don't care how he tries to  
17 put lipstick on this pig, Your Honor, it's more than one  
18 reference. That's the biggest difference between  
19 anticipation and obviousness.

20 If you've got to go to more than one  
21 reference, you have to put in an obviousness case. It's  
22 that simple. It really is that simple. That's what the  
23 law is, and the Circuit is just adamant about this.

24 And, you know, you already heard Counsel  
25 say Johnson --

1 THE COURT: Well, be careful what you ask  
2 for, Mr. Adamo, because if you're not right and if I  
3 give it, then they've got a free ride.

4 MR. ADAMO: I understand.

5 THE COURT: Sometimes, I think, lawyers  
6 ask for too much.

7 MR. ADAMO: I understand.

8 Well, you heard Counsel say that at least  
9 in one of these instances, it was a combination of  
10 things, Johnson plus something else. Well, that's not  
11 anticipation.

12 THE COURT: Okay. Thank y'all for your  
13 arguments. I'll consider that one as well.

14 Anything further regarding the Plaintiffs  
15 on JMOL?

16 MR. ADAMO: I -- as far as what I have  
17 here, I mean, I'm serious about all of them, Your Honor,  
18 but I don't think -- I don't think any others, in view  
19 of what I've already put on your plate, that I would ask  
20 you to think about tonight.

21 THE COURT: All right. Soverain's motion  
22 for JMOL is denied, except the Court has taken under  
23 advisement the anticipation and obviousness part.

24 MR. ADAMO: Understood.

25 THE COURT: All right. Defendant have

1 any -- I don't have a copy of your JMOL in front of me.

2 Do you have a copy?

3 MS. FROST: Yes, I do. I'm on my way.

4 If I may approach?

5 THE COURT: Okay. I hope that's multiple  
6 copies.

7 MS. FROST: It is. It's very short.

8 Your Honor, what I've just handed up and given to other  
9 counsel and we, I believe, had filed electronically at  
10 the close of the evidence are three JMOLs, one on the  
11 issue of damages, another on the issue of  
12 non-infringement, and a third on the issue of  
13 invalidity.

14 Although we're very proud of our motions,  
15 too, and I certainly would be happy to go over any of  
16 them, I'm happy to rest on our papers, which I  
17 appreciate the Court's indulgence giving me the time to  
18 the end of the case to be able to provide this to you.

19 THE COURT: All right. Thank you.

20 All right. Newegg's motions for JMOL as  
21 to non-infringement, invalidity, and damages are denied.

22 What else?

23 Any other objections to the charge, other  
24 than I take it you object to definitions regarding --  
25 well, the whole invalidity. You object to all of -- the

1 5.1 through whatever?

2 MR. ADAMO: It's essentially 5 -- I  
3 didn't have -- I didn't have a problem, Your Honor, with  
4 how 5.2 was -- was stated. I don't have any problem  
5 with the -- with the statement of anticipation, but it's  
6 essentially the same issue. I don't think they have the  
7 evidence.

8 THE COURT: That it shouldn't be --  
9 right.

10 MR. ADAMO: And 5.3 is the same thing. I  
11 have no problem with the language of any of this, but  
12 5.2 and 5.3, it's a question of whether Your Honor  
13 thinks there's enough evidence for this to go to the  
14 jury. And you've already ruled in my favor on 5.1,  
15 so...

16 THE COURT: All right. No other  
17 objections to the Court's charge?

18 MR. ADAMO: No other objections, and the  
19 verdict form is fine with us, Your Honor.

20 THE COURT: All right. Does the  
21 Defendant -- the Defendants have any other objections to  
22 the -- are there any objections to the Court's charge?

23 MS. FROST: Yes, Your Honor, there are a  
24 few. I have some general ones and then some very  
25 specific ones, I'll go over.

1                               Generally, we object to the charge to the  
2   extent that it does not include Newegg's previously  
3   submitted instructions which were in Docket No. 350 with  
4   two exceptions dealing with the entire market value rule  
5   and divided infringement, which I will cover separately  
6   when I get to those places in the charge.

7 We do object to the Court's --

8 THE COURT: Well, I know you submitted a  
9 charge, and so did the other side, but now I've got my  
10 charge, and I'd like to hear what your objections to it  
11 are. I'm not going to allow you to just incorporate in,  
12 you know, everything that you've submitted before, so...

13 MS. FROST: I appreciate that, and I'm  
14 going to the specific ones right now.

15 THE COURT: Okay. All right.

16 MS. FROST: The first one of those, the  
17 second paragraph of 4.1, it says: An accused system  
18 infringes a claim if it is reasonably capable of  
19 satisfying the claim elements.

20                   We submit that -- and I will -- if I may,  
21 reserve and make all of these objections without waiver  
22 of our JMOLs, which have been denied, but where we  
23 continue to believe that the --

24 THE COURT: Oh, certainly.

25 MS. FROST: -- these claims should not be



1 submitted to the jury.

2 THE COURT: I understand that.

3 MS. FROST: Fair enough.

4 We believe that the -- this language with  
5 reasonably is appropriate -- is inappropriate and should  
6 be --

7 THE COURT: What do you think it should  
8 say?

9 MS. FROST: -- changed.

10 THE COURT: What do you think it should  
11 say?

12 MS. FROST: We think reasonably should  
13 just simply be deleted.

14 THE COURT: So you should think it should  
15 say an accused system infringes if -- infringes a claim,  
16 if it is capable of --

17 MS. FROST: Correct.

18 THE COURT: -- of satisfying?

19 MS. FROST: Correct. We believe that  
20 actual capability is required.

21 MR. ADAMO: My -- I don't have all of our  
22 papers in front of me, Your Honor, from their earlier  
23 submission, but my recollection of the Federal Circuit  
24 law on this point, the reasonably is properly in there.

25 THE COURT: That's my recollection as

1 well, so that objection is overruled.

2 What's next?

3 MS. FROST: We have an objection on  
4 Page 9 to the divided infringement section. It starts  
5 at top of Page 9. It says: Direct infringement  
6 requires a party to perform and use each and every step  
7 of the claimed method.

8 MR. ADAMO: Ms. Frost, do you mean the  
9 second full sentence in the first paragraph on Page 9?

10 MS. FROST: Yeah. It's that whole  
11 paragraph that I have some problems with.

12 We would object to this and request  
13 instead the specific instruction, Your Honor, that we  
14 submitted, which was in our charge, Docket No. 360.

15 THE COURT: Okay. Are you talking  
16 about para -- the last paragraph of Paragraph 4.1  
17 dealing with direct -- or excuse me -- it would be the  
18 third paragraph of 4.1, direct infringement, that  
19 begins: Direct infringement requires a party to perform  
20 or use each and every step of the claimed method, and  
21 goes down through mere arm's-length cooperation, et  
22 cetera?

23 MS. FROST: Yes. Yes. And we would --

24 THE COURT: And what is your objection to  
25 the Court's instruction?

1 MS. FROST: Our objection is severalfold.

2 THE COURT: It's what?

3 MS. FROST: Severalfold.

4 First of all, we believe that the  
5 objection -- that -- that the charge should include also  
6 a statement about system claims.

7 And this is a --

8 THE COURT: What --

9 MS. FROST: It only deals with method  
10 claims at the moment. It says: Direct infringement  
11 requires a party to perform or use each and every step  
12 of a claimed method. And it talks about direction and  
13 control with respect to method claims.

14 THE COURT: Okay. So what do you say it  
15 should say? Instead of method, should it say system?

16 MS. FROST: It should say method -- it's  
17 difficult to come up with the appropriate statement,  
18 other than what we have previously submitted to Your  
19 Honor, which we would rather submit, but let me -- let  
20 me work with it and try.

21 What I'd like to add is a statement in  
22 here that if Newegg itself does not own or possess the  
23 elements recited in the system claim, Newegg does not  
24 infringe that system claim.

25 THE COURT: All right. That's your

1 request.

2 MS. FROST: Yes.

3 THE COURT: Response?

4 MR. ADAMO: It's not the law. To the  
5 extent that case law from which this instruction would  
6 have come from the Federal Circuit case law, it is  
7 specific to method claims. The law is not the same for  
8 system claims. It's that simple.

9 And if Ms. Frost is trying to jump out of  
10 the Federal Circuit here and say, well, we think it  
11 should be the same for both system and method, but  
12 that's not what the Federal Circuit says.

13 THE COURT: Okay. Well --

14 MS. FROST: But that -- excuse me. I'm  
15 sorry, Your Honor. I didn't mean to interrupt you.

16 THE COURT: Go ahead.

17 MS. FROST: The Federal Circuit hasn't  
18 said, and that's kind of the problem.

19 THE COURT: All right.

20 MS. FROST: What the Federal Circuit has  
21 said is that with regards to method claims, this is  
22 correct.

23 Several district court cases have held  
24 that -- and Judge Ward has held and others have held  
25 that method claims and system claims should be

1 considered under the same general type of analysis.

2                   We don't necessarily agree with that, and  
3 in fact, in our JMOL, believe that many of the  
4 Plaintiff's infringement claims should not go to the  
5 jury at all, because they are divided infringement  
6 system claims to which we believe that exception doesn't  
7 apply.

8                   And so a divided infringement system  
9 claim fails unless -- it should fail, period, unless one  
10 person owns or possesses all of the system, which is not  
11 what we have here.

12                   Our back -- our sort of backup  
13 argument -- since the JMOLs have been denied, our backup  
14 argument is that there should be some instruction with  
15 regard to system claims that mirrors the method claim  
16 direction and control type standard, and that's what  
17 we've just proposed that the Court include.

18                   MR. ADAMO: Your Honor, it's in our JMOL  
19 briefing, and the Federal Circuit has spoken on the  
20 point. NTP Research versus Research -- NTP versus  
21 Research in Motion, 418 F.3d 1282 at 1317, Federal  
22 Circuit 2005.

23                   And Your Honor has already, in the  
24 Renhcol -- your Renhcol case, which we've cited in our  
25 JMOL motion, 548 F.Supp 356 at 360, you've already

1 looked at this issue; but, you know, plainly, the  
2 Federal Circuit has spoken, and systems are different  
3 than methods. And that's what NTP says.

4 THE COURT: All right. I overrule the  
5 objection.

6 Let me ask this question, though,  
7 Mr. Adamo. 4.1 refers to, in Paragraph 2, a patent  
8 claim is directly infringed only if the accused system  
9 or method includes each -- you're not alleging method  
10 claims, are you?

11 MR. ADAMO: In the '639, we are, Your  
12 Honor.

13 MS. FROST: '639.

14 THE COURT: You are?

15 MR. ADAMO: But that's -- yeah, but  
16 that's -- that's accurate. You find it -- it's -- the  
17 accused system or method has to include each step or  
18 element of the claim.

19 THE COURT: Right. But I'm saying it  
20 should be system or method, is that correct, or just  
21 system.

22 MR. ADAMO: No. System or method is  
23 correct.

24 THE COURT: Okay. All right.

25 MR. ADAMO: Because the '639 claims are

1 processor or method claims, Your Honor.

2 THE COURT: Then what about the next  
3 paragraph beginning at the top of the next page where it  
4 says: Direct infringement requires a party to perform  
5 or use each and every step of a claimed method?

6 MR. ADAMO: That's also true.

7 THE COURT: Okay.

8 MR. ADAMO: It's true both as to system  
9 and method. You have to satisfy every element of the  
10 claim with respect --

11 THE COURT: What should that say? Should  
12 that be consistent with the preceding paragraph and say  
13 system or method?

14 MR. ADAMO: Well, not in the first  
15 paragraph of -- no. The first paragraph of Page 9, Your  
16 Honor, is exactly --

17 THE COURT: Okay. I'm not -- I'm not --

18 MR. ADAMO: -- correct the way it stands.

19 THE COURT: -- raise more problems,  
20 but --

21 MR. ADAMO: No.

22 THE COURT: Let's move on.

23 What's your next objection?

24 MS. FROST: Your Honor, we would request  
25 that the Court give, in connection with the Doctrine of

1   Equivalents, our -- at the end of the last sentence on  
2   Page 9, it says: In the patent claim is where the  
3   sentence ends.

4                   We would request that the Court add the  
5   following statement, which is a correct statement of the  
6   law, and we think would be -- would minimize the risk of  
7   jury confusion in this case because of the number of  
8   claim elements, the following: Such equivalents must be  
9   determined for individual elements of the claimed  
10  invention, not the invention as a whole.

11                  THE COURT: Response?

12                  MR. ADAMO: I'm just looking to see how  
13  the claim reads -- the charge reads at the moment.

14                  Well, if you look at the first sentence,  
15  a claim limitation -- that's not the whole claim; that's  
16  a limitation -- is present in an accused system or  
17  method under the Doctrine of Equivalents if the  
18  difference between the claim limitation and a comparable  
19  element in the accused system -- it's already in there.

20                  THE COURT: I think that -- I think that  
21  would just be restating it. Your objection and tender  
22  is overruled.

23                  What's next?

24                  MS. FROST: Page 16, Your Honor, under --  
25  forgot one. I'm sorry.



1 THE COURT: I think Page 15 is already  
2 gone by agreement.

3 MS. FROST: Right.

4 THE COURT: That's best mode.

5 MS. FROST: And it's just been called to  
6 my attention that on active inducement, again, we are --  
7 have made a JMOL on that basis, that there's no evidence  
8 of active inducement.

9 THE COURT: I've ruled on that.

10 MS. FROST: On Page 16, for participation  
11 for lack of novelty, this is a suggestion to the second  
12 full paragraph on that page, the disclosure in a prior  
13 art reference.

14 It seems to me that it would be clearer  
15 for the jury if we use the same language from  
16 Paragraph 1 and Paragraph 2.

17 In the first paragraph, we talk about all  
18 elements must be in a single previous device or method  
19 or described in a single previous publication. I don't  
20 know that the jury knows what disclosures are, but it  
21 seems to me that the description in a prior art  
22 reference would be clear. It's just a suggestion.

23 THE COURT: All right. The Court  
24 appreciates the suggestion, but I think we'll just leave  
25 it like it is.

1                   What's next?

2                   MS. FROST: On Page -- same page, as I  
3 mentioned earlier, I would give you a couple of cleanup  
4 places where our omission or dropping of those claims  
5 should be made note of.

6                   THE COURT: Okay.

7                   MS. FROST: Specifically, at the bottom  
8 of Page 16, the fourth line down, where it says:  
9 Application, paren, as described previously in Section  
10 5.1, we can omit those parentheses and the words in  
11 there, I think.

12                  THE COURT: All right.

13                  MR. ADAMO: Agreed, Your Honor.

14                  MS. FROST: Same thing on Page 18, under  
15 5.2.2, at the conclusion of the first full paragraph,  
16 under that section, we can omit as described previously  
17 in Section 5.1.

18                  THE COURT: All right.

19                  MR. ADAMO: Agreed again.

20                  MS. FROST: On Page 23, right before we  
21 get to 5.3.3, level of ordinary skill in the art, we had  
22 submitted some language from KSR that we thought was  
23 appropriate and would be helpful to the jury in this  
24 case and would request that it be -- that the  
25 instruction, based on the language from KSR, be given.

1 When there -- when there is a design need or market  
2 pressure to solve a problem and there are a finite  
3 number of identified, predictable solutions, a person of  
4 ordinary skill has good reason to pursue the known  
5 options within his or her technical grasp.

6                   If this leads to anticipated success, it  
7 is likely the product, not of -- it's likely the  
8 product, not of innovation but of ordinary skill and  
9 common sense, in that instance, the fact that a  
10 combination was obvious to try might show that it was  
11 obvious.

12                   And we request that that instruction be  
13 given.

14                   MR. ADAMO: You've got obvious to try  
15 already handled, Your Honor, in the -- at the top of 23.  
16 I guess it's a one-sentence paragraph, but it's there.  
17 And that KSR language that Ms. Frost just read, I think  
18 if you look at what other courts and Bar Associations,  
19 et cetera, have recommended, there's no consistent view  
20 on whether that language should be just be copied into a  
21 charge. It tends -- my experience is it tends to  
22 confuse more than it does to clarify.

23                   THE COURT: All right. That objection  
24 and suggestion is denied.

25                   What's next?

1 MS. FROST: With respect to the issue of  
2 secondary consideration, it starts on Page 23, my focus  
3 is on Page 24, specifically Items No. 7 and 9, we  
4 request that at the end of Item 7 and 9, the following  
5 language be added: Based on the merits of the claimed  
6 invention.

7 These are correct statements of the law  
8 and believe -- we believe provide the jury with  
9 appropriate guidance with respect to what considerations  
10 they should make.

11 THE COURT: All right. That objection's  
12 overruled.

13 What's next?

14 MS. FROST: No. 20 -- Page No. 24, Item  
15 5-4 -- or 5.4, corroboration of oral testimony, it's our  
16 position that under Thomson, corroboration is not  
17 required in this case.

18 Certainly, if the jury is going to be  
19 instructed with respect to corroboration, we believe  
20 that the charge, as given, should be changed to say:  
21 Oral testimony of an interested party alone is  
22 insufficient, because the corroboration requirement, we  
23 believe, as a matter of law, only extends to interested  
24 parties, and so it should state that in the  
25 instructions.

1 THE COURT: Response?

2 MR. ADAMO: That's wrong as a matter of  
3 law. That's not an accurate statement of what the law  
4 is and the requirements of corroboration, and we've  
5 weighed those cases out.

6 THE COURT: All right. Objection is  
7 overruled.

8 What's next?

9 MS. FROST: With respect to damages, Your  
10 Honor, we have a specific request that we would like to  
11 hand up to the Court. We'll electronically file it,  
12 too. Thank you.

13 We would ask that this instruction deal  
14 with the entire market value rule.

15 There's two for y'all. Thank you.

16 MR. ADAMO: Your Honor, they -- there was  
17 already a submission of an entire market value rule  
18 charge by Defendants, which I would assume you've  
19 denied, because it isn't included in your -- the charge  
20 that we're working through right now.

21 So I'm not sure where this came from, but  
22 this -- they've done this once already, and apparently,  
23 you told them no --

24 MS. FROST: No.

25 MR. ADAMO: -- correctly.

1 MS. FROST: I beg your pardon, Mr. Adamo.  
2 I didn't mean to interrupt you.

3 We have not proposed this particular  
4 language to the Court or to the parties, as -- we've  
5 said from the outset --

6 MR. ADAMO: Well, Your Honor --

7 MS. FROST: -- we wanted to reserve our  
8 right to make particular changes and suggestions and  
9 objections to the charge as the case was presented and  
10 the rulings were made and the evidence came in, and we  
11 all, I believe, agreed that that would be the way we  
12 would proceed.

13 This, we submit, is the best articulation  
14 of the situation -- or of the entire market value rule  
15 as related to method and system claims that we have been  
16 able to come up with.

17 And it's an improvement, we submit, over  
18 what we previously gave the Court and shared with  
19 opposing counsel and would request that this, which we  
20 believe more accurately states the law in this area --

21 THE COURT: Okay. Thank you. It's  
22 denied.

23 What's next?

24 MS. FROST: I believe, Your Honor, that  
25 takes me to the end of our objections to the charge.

1 THE COURT: All right. Very well.

2 All right. I said an hour. How long do  
3 y'all want tomorrow for closing arguments?

4 MR. ADAMO: I really need the hour.

5 THE COURT: All right. An hour it is.  
6 You still want 45 minutes or --

7 MR. SAYLES: No, sir. I'll take the same  
8 amount Mr. Adamo does. It's hard enough going second as  
9 it is and having the pressure put on you.

10 THE COURT: All right. Both sides will  
11 have an hour. I think, by us having gotten all this  
12 have out of the way, we can get an early start on it at  
13 9:00 in the morning. I think we'll have time for an  
14 hour for each side.

15 Let me ask you this: I did this in my  
16 last trial. I used to not pass the charge out to the  
17 jury until they went to the jury room. And I'm going to  
18 pass it out to them tomorrow when I begin.

19 And the parties in the last case agreed  
20 that by handing it out to them and commending it to them  
21 to read, that I would charge them orally, but they were  
22 agreeable to letting me just incorporate by reference  
23 certain parts of the charge that are lengthy.

24 Does anyone have any problem with that?

25 MR. SAYLES: Plaintiff goes first, but I

1 think I was here for that trial --

2 THE COURT: I believe you were.

3 MR. SAYLES: -- and I thought that worked  
4 very well on the parts where you skipped lists that were  
5 in there.

6 THE COURT: Right.

7 MR. SAYLES: And I had no problem with  
8 the way you did it in the last case.

9 THE COURT: Okay. So you have no problem  
10 with me doing it in this case?

11 MR. SAYLES: No, sir.

12 THE COURT: Okay.

13 MR. SAYLES: I mean, if it's essentially  
14 the same way --

15 THE COURT: Well --

16 MR. SAYLES: -- I think it was entirely  
17 appropriate.

18 THE COURT: Okay. All right.

19 MR. ADAMO: I would assume, Your Honor,  
20 that where you're going with this is to the extent you  
21 have reference to Appendix A and Appendix B in the  
22 charge, you're just going to just tell everybody that  
23 that's where it is. If you need to consult it, do it  
24 while you're back there.

25 THE COURT: Right. And I skip the



1 Georgia-Pacific factors, and I tell them that the  
2 attorneys will point out to you which ones they think  
3 are important, and anything that's more just, you know,  
4 boring lists that they're not going to understand  
5 anyway, so...

6 But I'll hit all the major infringement,  
7 invalidity, and damage issues.

8 MR. ADAMO: I think, at least my  
9 experience, and I would assume it's Mr. Sayles' as well,  
10 juries have enough of a hard time with this stuff while  
11 they're standing as it is, but when they don't have it  
12 in front of them or are reading along with you, they've  
13 really got no clue, and they're going to stay with you.  
14 So I'm totally in favor of them reading along with you.

15 THE COURT: Yeah. Okay. Very well.

16 Anything further from the parties?

17 Oh, Ms. Ferguson reminds me that y'all  
18 need to get your exhibits together. You've received my  
19 order regarding getting them marked.

20 And in my trial last week, when I visited  
21 with the jury, one of the suggestions they made -- man,  
22 that jury was out for two days digging through those  
23 documents in there. They never sent out a single note,  
24 and their main problem was -- and it's such a valid  
25 one --

1 MR. ADAMO: Couldn't see anything.

2 THE COURT: -- we didn't send an index in  
3 with them to help them.

4 So, I mean, think what that would be like  
5 for you, as a lawyer, if your paralegal brought you a  
6 box of documents with an exhibit list and a bunch of  
7 numbers, but no description of what number is where.

8 So on your exhibits, please have a  
9 descriptive list that you've exchanged and both agree.  
10 Don't get to arguing your case in your -- don't say  
11 double star, this is the one, or anything on it.

12 MR. ADAMO: I was going to use colors,  
13 Judge, just colors of reasoning.

14 THE COURT: But do have an index and have  
15 them well organized. And you know the drill with regard  
16 to both demonstratives and exhibits. After the trial,  
17 all be reduced to a CD and filed with the Court. Y'all  
18 are in charge of exhibits after the trial, okay?

19 Anything further?

20 I want to compliment both sides for a  
21 well-trying case. You've moved it along very, very  
22 promptly, and Plaintiff only used 11 hours and 15  
23 minutes, and Defendant 10 hours and 30 minutes, so I'm  
24 going to start going with 11 hours from now on. I think  
25 that's plenty.

1 MR. ADAMO: Your Honor -- Your Honor --  
2 Your Honor, Sayles and I are getting older, Judge. You  
3 can't work us like this all the time.

4 THE COURT: I understand.

5 All right. Well, thank you. Y'all have  
6 a good evening.

7 (Court adjourned.)

8

9

10 C E R T I F I C A T I O N

11

12 I certify that the foregoing is a correct transcript  
13 from the record of proceedings in the above-entitled  
14 matter.

15

16 /s/

17 SHEA SLOAN, CSR

18 OFFICIAL COURT REPORTER

19 STATE OF TEXAS NO. 3081

20

21 /s/

22 JUDITH WERLINGER, CSR

23 DEPUTY OFFICIAL COURT REPORTER

24 STATE OF TEXAS NO. 267

25